

**PILOT LOCAL GOVERNMENT
PARTNERSHIP PROGRAM**

**KUTNO AGRO-INDUSTRIAL
PARK MARKETING PLAN**

Prepared for



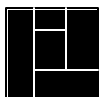
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EXECUTIVE SUMMARY

The purpose of the presented marketing plan is to provide an analysis of external and internal factors influencing the implementation of the Kutno Agro-Industrial Park. This plan presents the methods of identification of a target group as well as the criteria of choice of potential investors, their expectations and requirements connected with investing in a local environment.

The analysis presented includes also a promotional mix which is the basic element of market communication.

For the purposes of the presented plan ASM has performed an initial opinion poll among existing investors in Kutno region. Also data from surveys performed by Centrum Badań Marketingowych "Indicator" and Coopers and Lyabrand have been used.

Materials used in the marketing plan come mainly from national and provincial statistical bulletins published by the Provincial Statistical Office and the Main Statistical Office. The plan includes also information coming from other sources, such as: Instytut Koniunktur i Cen Handlu Zagranicznego (Institute for Economic Situation and Foreign Trade Prices), Kutno Provincial authorities, NGOs - Państwowa Agencja Inwestycji Zagranicznych - PAIZ (Polish Agency for Foreign Investment) and regional organizations - Agencja Rozwoju Regionalnego Kutna (Kutno Agency for Regional Development) and Regionalna Izba Gospodarcza (Regional Chamber of Economy) in Kutno. Part of information used comes from professional press, such as "Wiadomości Gospodarcze" (Economic News) - a monthly of the Polish-German Chamber of Industry and Commerce and countrywide newspapers, e.g., "Rzeczpospolita", "Gazeta Wyborcza".

The conception of marketing activities covers marketing strategy and operations needed to the implementation of the strategy of an investment project and reaching the goals of that project. Marketing surveys, i.e., assessment of market information and other elements of a project environment, are of fundamental importance to the development of a marketing conception.

The purpose of marketing surveys is to obtain, analyze and interpret that information. Marketing surveys cover mainly analyses of potential audience (investors), customer activities and expectations, analyses of interrelations of individual market entities as well as the influence of political, economic and social factors on market situation.

The presented marketing plan consists of eight sections that analyze selected aspects of the project discussed. The plan covers issues related to the economic situation in Poland, climate for foreign and domestic investments in Poland, the description of characteristics of Kutno region, the presentation of ideas and technical conditions of the KAIP, the analysis of purchasers and their needs, the directions of seeking investors and the development of a KAIP promotional strategy.

It turns out from this marketing plan that from Central and East European countries Poland is attractive for both domestic and foreign investments. A dynamic growth of Polish economy, a decreasing inflation rate and an increasing Gross Domestic Product as well as Polish aspirations for reaching European standards both economic and legal, creates a favorable climate to the development of enterprises (first of all, small and medium enterprises), especially of a private sector.

As it turns out from this plan the opinions of managers from Kutno region on the KAIP project are very optimistic. The establishing of the KAIP is estimated as a very beneficial undertaking for Kutno region. This region creates the sources of raw materials for the development of agro-industry and it also has a high supply of cheap workforce consisting mainly of young people. Good location is the basic advantage of the KAIP.

Information gathered during surveys performed shows that local investors can see many positive effects both for Kutno community and the development of their own companies in the establishing of the KAIP.

The following effects are most important:

- Unemployment decrease by generating new jobs
- The increase of consumption in the region
- Opportunity for the development of local business
- Better use of agricultural and processing potential of the region
- The change of the city image and its perception as a place with better prospects for both young people and the owners of existing companies

The presented marketing plan shows, yet, many barriers and difficulties connected with the development of capital investments. The removal of threats and those barriers is the task of local authorities, which is within the authority and possibilities of a local government.

Information gathered in the plan will be used by the local authorities of Kutno as a basis for the development of a strategy of attracting potential purchasers (domestic and foreign). The local authorities should take efforts to improve the way of settling formalities related to the start-up of economic activity in the KAIP as well as to implement an unbroken communication system with investors and residents. The use of Public Relations in order to engage the community in the implementation of the KAIP project is an important factor affecting the success of the undertaking.

Results obtained show a need for carrying out an active promotion of the region and the city as a local investors' market. Considering that both domestic and foreign investors, especially from Germany, USA and Holland, can be potential investors in the KAIP, its promotion should take into account specific features and differences of the audience of the promotion.



CHAPTER 1

ANALYSIS OF INVESTMENT ENVIRONMENT

ECONOMIC CONDITIONS

Introduction

Poland is situated in the middle of Europe. For 40 years Polish economy had been connected with the economy of USSR as a centrally managed economy. System changes in 1989 caused the transformation of economic principles as well as the development of economic and trade contacts with the European Union.

Poland is expected to join the EU in the first years of 21st century. This impinges on the economic position of Poland as the place with a direct access to EU markets. Exchange with the EU is already predominant today. At the same time relations with neighboring Russia, Ukraine, Belarus, Lithuania, The Czech Republic and Slovakia are being restored. This provides an opportunity for companies located in Poland to become present on the EU markets and the markets of the eastern neighbors of Poland.

Poland is an interesting partner for economic cooperation in many respects. System changes carried out in the years 1989 - 1991 and a transition to market economy helped that. It has resulted in the increase of GDP and a simultaneous decrease of inflation and the level of unemployment.

Gross Domestic Product

Final domestic demand that increased by more than 10 percent in 1996 became a propeller for Polish economy. That was caused by the increase of capital expenditures by more than 22 percent that resulted mainly from purchases of new machinery and equipment as well as an unexpected consumption increase from personal incomes by more than 8 percent. Industrial production noted an increase lower by 8.8 percent than a year before which is related to a drop in competitiveness of export and an increase in competitiveness of import. In agriculture, on the other hand, a slight increase in a vegetal and animal production occurred and gross added value did not decrease in comparison to 1995.

Comparing the rate of economic growth of Poland with other countries one must note that it was among the highest in the world between 1990 and 1995. It grew by 3.8 percent in 1993, 5.2 percent in 1994 and 7 percent in 1996 in comparison to 1990.

In 1996 GDP increased in Poland by 6 percent which put Poland in a second place among Central European countries (Slovakia - growth by 6,5 percent). Taking, however, into

account GDP in Poland in 1995 by value - US\$ 118 trillion - this amount ranks fifth among European countries:

- Germany - US\$ 1910.8 trillion
- Italy - US\$ 991.4 trillion
- Russia - US\$ 357.8 trillion
- Austria - US\$ 182.1 trillion

Table 1
GDP Annual Growth

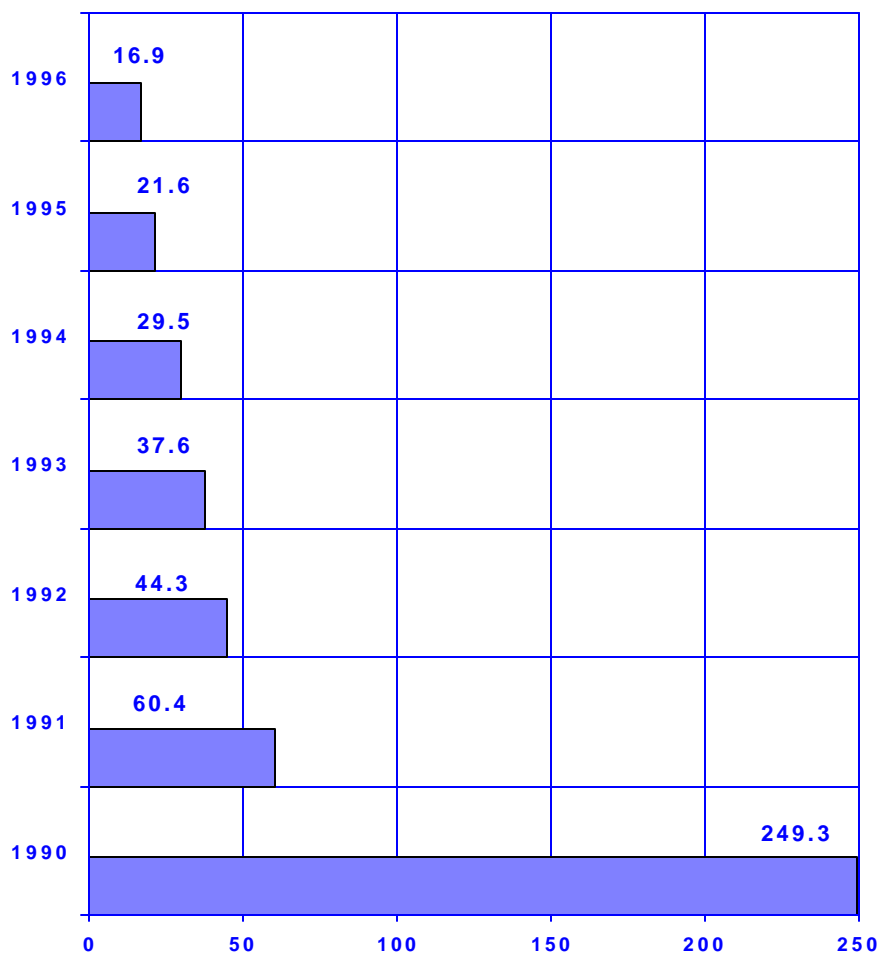
Country	1991	1992	1993	1994	1995	1996
Germany	5.0	2.2	-1.1	2.8	1.9	1.3
United Kingdom	-2.0	-0.5	2.0	3.2	2.8	2.2
USA	-0.6	2.3	3.1	3.7	2.8	2.4
Bulgaria	-11.7	-5.7	-4.2	0.2	3.0	-9.0
Czech Republic	-14.2	-6.6	-0.3	2.6	5.0	5.2
Poland	-7.6	2.6	3.8	5.2	7.0	6.0
Romania	-12.9	-13.5	1.0	3.4	7.0	4.0
Russia	-12.9	-18.5	-12.0	-15.0	-4.0	-4.0
Slovakia	-14.5	-7.0	-4.1	3.9	7.0	6.5
Ukraine	-12.0	-17.0	-18.0	-24.5	-12.0	-8.0
Hungary	-11.9	-4.3	-2.3	3.0	2.0	1.2
Slovenia	-8.1	-5.4	1.3	5.0	5.0	3.0

Source: PAIZ 1997 (Polish Agency for Foreign Investment)

An ongoing decrease in inflation is noted together with the increase in GDP, which contributes to obtaining cheap credits and carrying out rational economy over time. Inflation in Poland decreased to 21.6 percent in 1995 in comparison to the hyperinflation of 249.3 percent in 1990. The assumption of national economic policy is to reach 2.4 percent inflation in 2006 which gives Poland an opportunity to join the European Union and face international competition.



Diagram 1
Inflation in Poland Percent



Source: PAIZ 1997 (Polish Agency for Foreign Investment)

The number of private sector businesses grows considerably in Poland. In 1996 the share of this sector in GDP was 60 percent like in Russia and Romania (60 percent).

Table 2
Share of the Private Sector in GDP - 1996

Country	Percent	Country	Percent
Belorus	15	Romania	60
Bulgaria	45	Russia	60
Czech Republic	75	Slovakia	70
Hungary	70	Slovenia	45
Poland	60	Ukraine	40

Source: PAIZ 1997 (Polish Agency for Foreign Investment)

Financial situation of companies measured with profitability ratios deteriorated slightly in the I quarter of 1997, mainly in a public sector. Gross financial result increased in total by 30.4 percent (by 4.7 percent in the public sector, by 94.2 percent in the private sector) including the increase by 10.1 percent in processing industry.

Among the main assumptions of the national foreign policy are:

- Political and economic integration with the European Union
- NATO membership
- Achieve close political and economic relations with neighboring countries

Privatization

The privatization process of Polish economy started seven years ago and still continues. Privatization aims at the change of financial and economic status of state-owned enterprises as well as at a dynamic development of newly established private economic entities.

Towards the end of 1996 238,900 economic entities had been registered in the REGON register (natural persons and non-commercial partnerships excluded). 77 percent were private sector entities. As the privatization process continues, the number of economic entities grows. At the beginning of 1996 the private sector generated about 60 percent GDP and employed 63 percent of total population. By the end of 1996 the share of this sector in industrial production reached 52 and 93 percent in retail trade while its share in import and export was about 62 percent.

From 8441 state-owned enterprises registered in April 1990 the privatization process covered 3799 state-owned enterprises and 1666 state-owned farms (PGRs) which gives 65

percent of total enterprises. A privatization method depends on economic and financial conditions of an enterprise.

Capital-based privatization (indirect privatization) covered medium-size and big state-owned enterprises. It consists in establishing a one man government company (both as a joint-stock company and as a limited liability company) and next selling its shares to potential investors by means of negotiations or a public bid. 168 government companies had been privatized until the end of 1996, 50 percent of which in Poznań and Bielsko Provinces. 1076 enterprises were included in the privatization process towards the end of 1996 and 184 (17 percent) were sold.

Privatization through liquidation refers to 70 percent of all enterprises comprehended by privatization and applies to small and medium-size enterprises often characterized by good financial situation, yet seeking private capital. Such enterprises can be sold, joined on the grounds of cooperation or leased by other companies.

A “Fast Privatization” program for small and medium-size enterprises was implemented in July 1991 by announcing a public bid. Ownership transfer through liquidation of an enterprise is the quickest method of privatization in Poland. 1318 enterprises had been included in this process by the end of 1996.

So far 1243 (94 percent) enterprises have been privatized. Some state-owned enterprises have been liquidated due to their bad financial and economic conditions in accordance with a law in force on state-owned enterprises. At the end of 1996 a liquidation procedure was started in 1405 enterprises and so far the process has been completed in 40 percent of them.

The high number of enterprises have been acquired by foreign investors. They had taken over 146 companies until 1996. Among foreign investors having shares in privatized companies German investors (28) are most numerous. USA (13) comes in second and Holland (10) third.

In 1992 a national investment funds (NIFs) program was implemented.

The program target is to:

- Speed up the privatization process
- Create an opportunity for all citizens to participate in the privatization of the national economy
- Enable the privatized enterprises to get an access to modern management methods, technologies and funds

With this program about 15 NIFs are expected to be established with the shares about 512 companies established through the transformation of state-owned enterprises to be contributed in-kind to them. The government will contribute to the national investment funds 60 percent shares of every company in a following way: 33 percent of stock will be received by one Fund and the remaining 27 percent of stock will be divided equally among the remaining funds. Moreover, 15 percent of shares will be received free-of-charge by the employees of the company and 25 percent will be retained by the government.

Total gross profit of the state-owned enterprises included in the NIFs program was 427.0 million zloty in 1995 and only 60.4 million zloty in 1996. Total net profit in 1995 was 59.6 million zloty and 1996 closed with a loss (391.4) million zloty. Profitability of NIF companies was 2.5 point in 1995 and 0.2 point in 1996.

The implementation of the program is done in three phases:

- ! Transformation of state-owned enterprises into one man government companies (1187 enterprises have been transformed including 512 enterprises awaiting privatization).
- ! Establishing national investment funds (NIFs) and contributing company shares to them.
- ! Issuing of participation certificates and distributing them among Polish citizens and then exchanging the certificates for the NIFs' shares.

Shares of every NIF were distributed among all Poles (of age). The sale of participation certificates under the Mass Privatization Program (MPP) that lasted one year ended on November 22, 1996. About 95 percent of adult Poles made use of the offers and after paying a fee of PLN 20 they became owners of those certificates. The participation certificates can be traded on the Warsaw Stock Exchange (through brokerage offices only) since April 1997 where they are exchanged for the shares of the NIFs.

The assets of the NIFs that are joint-stock companies are managed by a specialized managing firm (renowned consulting companies either domestic or foreign, investment banks) which is selected through a bid by the Selection Board (Komisja Selekcyjna). The managing firm objective is to multiply funds' assets, increase the share value of companies in which the funds are shareholders.

Banking System of Poland

The reform of the banking system of Poland started in Poland in 1980 and focused mainly on breaking state banking monopoly. In 1989 The National Bank of Poland took over

the function of an independent central bank responsible for the monetary policy and management of the whole banking system in Poland.

Nine commercial banks were established which by extending refinancing loans to local banks manage money in Poland. Privatization of the Polish banking system was indispensable in order to meet the needs of an economic market as well as to prepare it for the integration with the EU, which attracts foreign investors to participate in the development of the banking sector.

PKO SA banking group (Pekao SA, Bank Depozytowe - Kredytowy SA in Lublin, Pomorski Bank Kredytowy SA in Szczecin and Powszechny Bank Gospodarczy SA in Łódź) established on September 16, 1996 is the largest group of banks located in Poland and Central Europe. This bank has PLN 2 trillion (US\$ 700 million) of equity capital and 21 percent share in the market. Pekao S.A. Group will be privatized partly towards the end of 1997. Among other big banks in Poland, PKO BP has 19 percent share in the market, BG0 (9,4 percent), Bank Handlowy (6,9 percent), ING (5,8 percent), BIG (4,5 percent).

The year of 1996 was a very favorable period for the Polish banking system. The banks generated a considerable income of PLN 3.6 trillion in the first six months of 1996 which was higher by 60 percent than in the similar period of 1995. The best result was achieved by 9 commercial banks and 6 banks under a government control. The banks managed by foreign capital increased their incomes by more than 42 percent, yet simultaneously a considerable increase in costs took place (up to 58.1 percent) resulting from expenses at the development of a computer network.

Foreign Trade in Poland

Turnover in foreign trade was US\$ 51.9 trillion in 1995. The value of export was US\$ 22.9 trillion and was higher by 32.8 percent than in 1994. The value of import, on the other hand, was US\$ 29.0 trillion - i.e., by 34.7 percent higher than in the previous year. Foreign trade deficit reached US\$ 6.15 trillion in 1995 and increased by 42.2 percent in comparison to 1994.

In 1996 this deficit was US\$ 12.6 trillion (export increased by 6.3 percent, import by about 27.2 percent). Towards the end of 1996, the value of export was US\$ 24.35 trillion while the value of import - US\$ 39.94 trillion.

Table 3
Value of Export, Import and Foreign Trade Deficit in Poland in 1995 - 1996

Ref.	Description	1995 (in trillion US\$)	1995 (in percent)	1996 (in trillion US\$)
------	-------------	----------------------------	----------------------	----------------------------

1.	Value of export	22.9	132.8	24.35
2.	Value of import	29.0	134.7	39.94
3.	Foreign trade deficit	6.15	142.2	48.73

Source: PAIZ 1997

Slowing down of export dynamism resulted mainly from a decrease in demand for goods imported from the main foreign partners of Poland (Germany) and an unfavorable structure of Polish export (characterized by the high share of low-end products).

Yet, on the other hand, the increase of import has been caused mainly by liberalization introduced (lowering of customs duties and taxes on imported goods) and by a considerable market demand of the emerging economy and zloty appreciation against other currencies (e.g., DM).

Table 4
Main Foreign Trade Partners of Poland - September 1996

Country	Turnover in million US\$	Export in million US\$	Import in million US\$	Share in Polish export	Share in Polish import
Germany	12,820.6	6,260.7	6,559.9	34.6	24.9
Italy	3,554.0	960.4	2,593.6	5.3	9.8
Russia	2,973.9	1,226.2	1,747.7	6.8	6.6
United Kingdom	2,225.6	693.8	1,531.8	3.8	5.8
France	2,214.9	794.8	1,420.1	4.4	5.4
Holland	1,913.7	874.3	1,039.4	4.8	3.9
USA	1,566.8	414.7	1,152.1	2.3	4.4
Czech Republic	1,417.4	594.7	822.7	3.3	3.1
Belgium	1,142.0	459.3	682.7	2.6	2.6
Denmark	1,124.8	559.7	565.1	3.1	2.1
Total	44,455.2	18,093.6	26,361.6	100.0	100.0

Source: PAIZ 1996

EU countries still remain the chief trade partner of Poland. Over 66 percent of Polish export is directed to the EU and 64 percent of Polish import come from those countries.

In spite of Germany being the biggest trade partner for Poland the total share of export to those countries decreased from 38.9 to 34.6 percent, while the share in import decreased from 26.8 to 24.9 percent. What concerns export of Polish goods to Germany share in manufactured goods classified as materials dropped from 32.3 percent noted during the first three quarters of 1995 to 29.6 percent in the similar period of 1996. Share in export of mechanical equipment and transport increased from 19.3 to 20.0 percent over the same period while share in finished goods of various types increased from 30.7 to 33.8 percent. Mechanical equipment and transport equipment were main areas of German export to Poland (33.8 percent in 1995 and 36.6 percent in 1996).

Russia remains the biggest trade partner of Poland from Central and East European countries. Trade turnover increased by 54.5 percent in export (US\$ 1,226.2 million) and by 32.9 percent in import (US\$ 1,747.7 million) during the first three quarters of 1996.

Most of Polish foreign trade is carried out by the private sector. In 1995 the total share of this sector in export was 56.8 percent and 70 percent in import. Towards the end of September 1996 this sector had 61.6 percent of total export and 75.4 percent of total import.

The highest increase of import could be observed in such groups as: vehicles, machinery and equipment (40 percent) as the result of a high demand for cars, food (cereal and feeding stuffs) - (34 percent). The value of import for domestic processing industry was 9.7 percent of total Polish import and was by 19.9 percent higher than in 1995. Nearly 60 percent of imported light industry products were processed at home. At the same time goods processed in Poland and exported made up 27 percent of total export in Poland and their value increased up to 36.3 percent.

INDUSTRY AND AGRICULTURE IN POLAND

Industry

In the first quarter of 1997 a high dynamics of economic activity in industry sustained along with a high increase in productivity and an average employment on a level similar to that of the previous year. Increase in production was mainly influenced by a domestic demand increase mainly from investors and a considerable number of households.

Industrial production sold by entities employing more than 5 employees was by 7.8 percent higher than in the first quarter of 1996 (with a work time shorter by 3 days). That resulted from the high increase of the production sold in processing industry - by 10.7 percent. In case of the processing industry the highest growth in production took place at the manufacturers of investment goods (by about 16 percent).

The increase of consumer goods production (by about 9 percent) was much slower than a year before, while the increase at the manufacturers producing mainly supplies was faster (production increase by over 10 percent). The increase of the level of production sold was achieved by 22 from 29 industries in comparison to the first quarter of 1996.

Agriculture

As far as agriculture is concerned Poland is an important producer in the world. The population of Poland makes up 0.7 percent of total world population and the area of Poland makes up 0.2 percent of the global area. That puts our country in 29 and 69 place in the world, respectively.

According to a farm census¹ carried out in 1996 there are 3,066,500 farms in agricultural sector in Poland including: 33.3 percent of the farms of arable land up to 1 ha, 15.1 percent of the farms of arable land of 1-2 ha, 21.8 percent of the farms of 2-5 ha, 8.5 percent of the farms of 5-7 ha, 8.5 percent of the farms of 7-10 ha, 7.1 percent of the farms of 10-15 ha, 2.9 percent of the farms of 15-20 ha, 1.8 percent of the farms of 20-30 ha, 0.6 percent of the farms of 30-50 ha and 0.4 percent of the farms of 50 ha or more.

Private farms made up 99.9 percent of total number of farms and equaled to 3,064,500 units including 2,041,300 individual farms (66.6 percent of the total number of farms).

Big farms can mainly be found in northern provinces where an average individual farm encompasses arable land of above 15 ha. The provinces are: Szczecin - 17 ha, Elbląg - 16.45 ha, Koszalin - 16.39 ha, Olsztyn - 16.25 ha and Suwałki - 15.15 ha.

The biggest number of very small farms can be found, first of all, in southern provinces where the average area of farm arable land is lower than 4 ha. The provinces are: Bielsko - 2.50 ha, Kraków - 2.98 ha, Rzeszów - 3.15 ha, Krosno - 3.25 ha, Nowy Sącz 3.31 ha, Tarnów - 3.39 ha and Katowice - 3.77 ha.

Moreover, the results of the General Farm Census of 1996 show that:

- Arable land of 18.5 million ha makes up 59.1 percent of the total country area
- Forests and forest land cover 8.8 million ha and make up 28.2 percent
- Other land (under buildings, water, roads, other land and idle land) cover 4.0 million ha and so about 12.7 percent of the total country area
- In farm land arable land covers 14.1 million ha (45.1 percent of the total area)
- Orchards cover 0.3 million ha (0.8 percent of the total area)
- grassland covers 4.1 million ha (13.2 percent of the total country area).

Poland produces 1.6 percent of the global wheat production, 29.2 percent of rye, 2.3 percent of barley, 9.2 percent of potatoes and 4.9 percent of sugar beets. Moreover, Poland comes in 15th in the world as the producer of vegetables and fruit (1.1 percent of the global production). The observations of recent years have shown that the potential of Polish farming

¹ Source: General Farm Census of 1996, Main Statistical Office.

grows. Comparing productivity ratios with the ratios of such countries like France, Germany or United Kingdom we can observe considerable spread. Yet, this means there are good development possibilities concerning agricultural production in Poland.

Much higher per cent of people is employed in agriculture in Poland than in the EU countries. In 1996 the employment in the Polish agricultural sector was about 21 percent of total people employed in the national economy. Such a high employment level allows cheap performing of most labor-consuming farm production like vegetable growing while overmanning can be used in processing industry.

The domestic market of 38 million people is a good base for the development of agro-industry. It can also be observed that the consumption of many agricultural and food products in Poland differs from the consumption in developed countries. This makes prospective increase of this consumption possible. In 1993 the consumption of such products as cereals, potatoes, vegetables, fresh dairy products was much higher than in Germany, USA, United Kingdom, France, Holland.

Table 5
Consumption of Some Products Per 1 Person (1993) (in kilograms)

Country	Cereals	Potatoes	Vege- tables	Meat	Fats	Dairy products	Eggs	Sugar
Poland	122	147	122	63	18	215	8	41
Germany	71	74	83	86	—	93	14	34
USA	76	23	—	123	—	134	14	81
Russia	124	127	71	59	—	294	14	31
Italy	121	41	178	75	—	64	12	27
United Kingdom	78	—	—	85	—	131	11	39
France	72	—	—	107	—	97	15	35
Holland	58	87	—	231	—	137	—	—

Source: *Mały Rocznik Statystyczny 1996* (1996 Small Year-Book)

Horticulture

Horticulture is an important export production branch of Poland. Poland comes in third in vegetable production in Europe (after Italy and Spain) and sixth in fruit production (after Italy, Spain, France, Germany and Greece). Poland also counts in Europe as the producer of

strawberries, raspberries, currants, gooseberries, apples, cherries, carrots, cabbage and cultivated mushrooms.

The total production volume of vegetables grown in fields and in greenhouses reached 5,928,000 tons in 1995 of which greenhouse production made up 4.8 percent (285,000 tons). Despite the increase of vegetable cropland (2.2 percent per year in years 1989 - 1994) vegetable crops kept on the same level - about 5.3 million tons. Production of onion and beet grew fastest. A regress occurred in cucumber and tomato production. Towards the year 2000 a growth in vegetables grown in fields is expected to be up to 6.6 million tons and in vegetables grown in greenhouses up to 0.4 million tons. In Poland field mushrooms and oyster fungi are produced on a large scale and their production is about 70 thousand tons.

An average level of a processed fruit production in 1989 - 1994 was 962,500 tons a year. The increase of processed fruit products was achieved in that period (average growth of 4.2 percent per year) while a regress occurred in a processed vegetable production (5.5 percent). The biggest shares in the structure of processed products belong to: frozen fruit, fruit concentrates, fruit juices and drinks and semi-processed products (frozen food, pureés, pulps).

The development of fruit-growing production in Poland depends, to a considerable degree, on export, while in vegetable production this dependency is relatively small. In 1995 56.5 percent of total fruit crops and 8.7 percent of vegetable crops were exported. A UE share in the total export of the above discussed group of goods from Poland was 75 percent. Strategic export products include: fresh apples, berries, apple juice concentrate, cherries, onions, chilled vegetables, mushrooms in brine and canned. In 1994 total export of the above mentioned products was 672,900 tons and its value was 458.5 million zloty.

The main budget effect of adopting Common Agricultural Policy (CAP) mechanisms to Polish agriculture will be the increase of compensation payments by about ECU 1.6 billion. The Cost of export subsidies will be on a relatively low level - about ECU 500-800 million. Total budget expenses related to adopting CAP mechanisms to Polish agriculture can be estimated as ECU 3,230 - 3,690 million.

POLITICAL AND LEGAL FACTORS

The environment in which Polish businesses are to develop and work depends on current political arrangements. Numerous political parties function on a Polish political arena. The lack of stable political situation causes instability of regulations and their sudden changes that make proper managing of businesses difficult.

An approaching parliament election may halt both Polish and foreign investors from taking decisions about new investments, until the makeup of a new parliament as well as the economic program of a future coalition are known.

Political situation must be considered more in connection with the consequences of economic and social decisions rather than in terms of stabilization.

The Policy of Poland in the Light of Joining EU

The geographical position of Poland results in specific export opportunities for domestic farm crops and their processed products to the West, to the EU as well as to the East, to the former USSR republics. The development of export is also supported by price competitiveness related to a lower labor cost, ecological character of food produced with less chemicals and the gradual disappearance of customs barriers and quotas connected with Poland joining the EU. On the other hand, export to eastern countries is supported by market capacity for agro-industrial goods, price competitiveness and territorial nearness.

The expected joining the EU makes Poland gain a strong economic position as regards a direct access to EU markets. Moreover, Poland is the country of a constant inflation decrease.

A single-digit inflation is expected to be achieved in 1998 and bringing its level close to that of EU countries is expected after the year 2000. A low inflation level creates good prospects for the development of Polish economy, since it makes it possible to obtain World Bank loans that are cheap and extended on favorable conditions, which will further create favorable conditions for a rational management in our country and will cause the increase of both domestic and foreign investments.

Integration with the EU means that companies that invest in Poland will get an access to the EU markets. That factor encourages cooperation with our country, especially of those countries that will have no other possibility to appear in the EU.

Above information proves that investing in agro-industrial branches in Poland is worthwhile due to:

- Polish agriculture potential
- Domestic market
- Human resources in the country
- Export possibilities
- Low degree of processing
- New markets resulting from EU integration

Poland joining the EU will ensure it:

- An access to a big market
- An access to modern technologies
- Starting even-out processes in regard to living standards

At the same time, a clash with the strong competition of the EU countries and the domination of stronger economic partners in all fields will take place.

Common Agricultural Policy

Poland joining the EU creates new conditions for agricultural development. The process of integration of Polish agricultural policy with the Common Agricultural Policy (CAP) gives rise to both high opportunities and considerable difficulties.

Opening of agricultural markets will, on one hand, influence loosening of the part of the domestic market to EU suppliers but, on the other hand, it will allow a better access to the EU markets. Polish food sector will be subject to severe competition. Food prices may go up to a higher level than the present one. The growth of food prices may influence the increase of farmers' incomes with a simultaneous increase of consumers' burdens and the intensification of inflation pressure.

The development of Polish agriculture and the effects resulting from adopting the mechanisms of CAP by Poland will depend on the direction this policy changes will take and what their rate is going to be. The most important issue for Poland is the Union's defining the target form of CAP as quickly as possible in order to define an adjusting strategy. Defining the final model is, yet, extremely difficult due to discussions that continue within the EU itself.

Basic CAP objectives have been defined in the Rome Treaty establishing the EEC. They are as follows:

- ! To improve agricultural productivity by promoting technological progress and guaranteeing reasonable development of agricultural production and optimum use of production factors, especially labor
- ! To guarantee proper living standards of farmers' community, especially through the growth of individual farmers' incomes
- ! To guarantee farmers an easy access to material supply
- ! To guarantee food to consumers at moderate prices

CAP covers a market and price policy and a structural policy. The bases of the market and price policy are:

- Import duties, import quotas and minimum prices in import
- Export extras
- Guaranteed prices

The general effect of this policy is maintaining of the EU prices of food product above the world price level, the development of export and narrowing down of import.

The big advantage of our agriculture in comparison to the EU countries are low costs of production. Only changes in productivity level could improve the effectiveness of Polish agriculture considerably.

The results of simulation calculations do not confirm EU concerns about a possible considerable increase of agricultural production in Poland after adopting the mechanisms of CAP. Certain increase of food production will take place in relation to those products that are most supported under CAP (beef).

The projected level of cereal production may be lower in the variants of EU membership than without membership. After joining the EU the increase of production level will take place only in some livestock production areas. This refers mainly to beef and to a smaller degree to poultry and pork.

A big increase in milk prices will not result in an abrupt production growth due to milk quotas that are in force in the EU and will be maintained during the period of Poland joining the EU. On the other hand, Polish export of rape and sugar, among other things, can decrease.

On joining the EU and becoming a rightful member Poland will have to respect legal regulations related to an agricultural market and observe limits regarding production volumes which will be specified in agreements with the EU.

The main direction of domestic agricultural development should be the maximum increase of production - crops.

The increase of production of cultivated plants is possible through:

- The increase of the area of their cultivation (management of idle land and fallow land)
- The increase of crops per area unit

Cultivated plants which cultivation area should not be decreased include: root plants, fodder crops and industrial crops. Taking into account soil and climate conditions of our country favorable to potato production, the area of potato cultivation should not be less than 1.2 million hectares. Crop received from this area amounting to 25 - 30 million tons will meet consumption, feeding and industrial demands as well as export demand.

Despite high costs of sugar production Poland should be its exporter. The area of sugar beet cultivation should increase up to about 500,000 hectares until the year 2000.

Cereals should be in the group of cultivated plants which cultivation area should not increase. Growth in cereal crops should be achieved through the growth of yields. Another group of cultivated plants which cultivation area should increase are industrial plants: oil plants (winter rape), fiber plants (flax and hemp) and special plants (hop and tobacco plant).

The degree of processing of agricultural crops is relatively low in Poland so a gap opens for its increase. It should be assumed that demand will result from changing tastes becoming more and more similar to the tastes of western consumers. On joining the EU we will face a market that offers much more processed products. We will have to bridge the gap by then.

FORECAST OF POLISH ECONOMIC DEVELOPMENT IN 1997 - 1998

It is assumed that, mainly, the relation between the rate of GDP growth, domestic demand, export and import will change in 1997 - 1998. The changes will be as follows:

- ! The rate of export growth will increase gradually up to 13 percent in 1997 and over 15 percent in 1998.
- ! The rate of capital investment growth will lower gradually, yet, if drastic measures to discipline economy can be avoided, then the dynamism of capital expenditures should remain on a two-digit level (over 13 percent in 1998).
- ! The rate of consumption growth will decrease gradually to a level below 5 percent. At the same time the dynamism of general consumption will be kept under control, the rate of domestic demand growth will decrease from 11 percent in 1996 and 9 percent in 1997 to a level above 6 percent in 1998. Yet, this rate will be slightly higher from the rate of GDP growth.
- ! Import dynamism will also be subject to a gradual slowing down to about 15 percent in 1998.

The improvement of the rate of export growth and the decrease of import dynamism will lead to restraining the tendency of worsening of a current turnover balance. Total trade deficit will become worse, growing from US\$ 1.2 billion in 1996 to about US\$ 4.4 billion in 1997 and US\$ 5.3 billion in 1998. The deficit of current turnover will be on a similar level. In relation to GDP the deficit of current turnover will worsen from 1 percent in 1996 to about 4 percent in 1998.

Table 6
Forecast of Polish Economic Development in 1996 - 1998 (in percent)

Description	1997	1998
Individual consumption	6.5	4.7
Capital investments	17.9	13.1
Export	13.0	15.8
Import	22.3	15.1
GDP	5.9	5.9

Source: Rzeczpospolita newspaper

SOCIAL AND CULTURAL FACTORS

Population in Poland

Towards the end of 1996 Poland came in eighth in Europe regarding population number which was 38.64 million including 62 percent of city residents. The population number is estimated to reach 39.5 million until the year 2000. Polish workforce is one of the youngest in Europe and 60 percent of Poles were under 40 in 1996.

An average employment level in an enterprise sector was 5,701,000 people in the first quarter of 1997 and was by 1.1 percent higher than in a similar period of 1996.

The increase of employment was observed, among other things, in real estate and company support services (by 11.8 percent) and in commerce and repair services (by 3.9 percent) while the decrease occurred in mining (by 5.9 percent) and in transport (by 0.2 percent) and power, gas and water supply (by 0.1 percent). In production an average employment increased by 0.5 percent. A considerable growth was noted, e.g., in furniture production plants, metal products manufacturing plants (machinery and equipment excluded), motor vehicles, trailer and semi-trailer manufacturing plants as well as food and beverages producers, while the decrease occurred in the entities manufacturing other transport equipment, fabrics, metals and machinery and equipment.

At the end of March 1997 the 2,236,000 unemployed were registered in employment agencies. In the first quarter of 1997 the number of the new registered unemployed was lower than a year before (527,800 compared to 569,600) and more people were crossed out from the records (651,600 compared to 472,400) including those who found new jobs (276,600 compared to 244,100). The number of job offers submitted to the employment agencies was 196,000 with the 78 unemployed per one offer while it was 90 people per one offer a year before.

An unemployment rate was 13 percent at the end of March 1997 and it was by 0.6 point lower than in December and by 2.4 point lower than in March a year before.

The number of the unemployed registered was lower in 42 provinces when compared with December 1996 and remained unchanged in Tarnobrzeg Province. The number of the unemployed increased in Zamońf Province (by 1.6 percent), Ostroka Province (by 1.3 percent), Cheńm Province (by 1.2 percent), Przemyńl Province (by 0.5 percent), Krosno Province (by 0.3 percent) and Biaa Podlaska Province (by 0.1 percent). The spread of unemployment rates in those provinces was between 12.3 percent in Biaa Podlaska Province and 17.8 percent in Ostroka Province. In the provinces with the highest unemployment rates (Supsk, Suwaiki, Koszalin, Elblg, Olsztyn) the decrease of the number of the unemployed ranged from 1.5 percent in Elblg Province to 8.6 percent in Koszalin Province.

Yet, the effects of a sudden increase of unemployment in the beginning of the 1990 still influence present situation on labor market negatively. This situation becomes more complicated because of, among other things, persistent hidden unemployment, mainly among the rural population. It is estimated that the hidden unemployment relates to 720,000 - 900,000 individuals in their working age. If one adds about 220,000 individuals working on farming plots, then the number will grow to about 1,200,000 individuals who in fact have no jobs although are not classified as the unemployed in official statistics.

In the first quarter of 1997 further increase in average real wages in the enterprise sector was observed. An average gross salary was 1,042.91 zloty in that period and was by 22.2 percent higher than a year before. An average net salary was 863.32 zloty and was by 23.7 percent higher than in the first quarter of the prior year. Purchasing power increased by 5.5 percent in comparison to the similar period of the prior year.

Analyzing the quality of Polish workforce we can state that it is high in comparison with other countries and its costs compared to wages in other European countries are very low. An average monthly salary in Poland equals about US\$ 250 while in Germany it is US\$ 2,200 and in Spain US\$ 1,550.

Despite the constant growth of employment in Poland it does not make up for the losses incurred at the beginning of the transformation. The number of people in production age

will grow for the next several years. It is estimated that apart from jobs for the present unemployed and those who are not included in the statistics additional 1,700,000 jobs must be generated until 2005.

SUMMARY

System changes that have taken place in Poland after 1990 have caused the Polish market to become more and more important on an international arena. It is influenced by the following factors:

- ! When compared with Central and East European countries Poland came in second as regards GDP. In 1996 6 percent growth was observed (only Slovakia had better growth - 6.5 percent).
- ! Inflation in Poland decreased to 16.9 percent in 1996 in comparison to the hyperinflation of 1990 - 249.3 percent. Forecasts project the inflation in Poland to reach 2.4 percent in 2006.
- ! The private sector plays a more and more important role in Poland including 77 percent of total economic entities. Towards the end of June 1996 ownership transformation took place in 5,448 state-owned enterprises (62 percent). 1,187 enterprises were transformed into government companies.
- ! The dynamic development of foreign trade is the positive effect of transition to market economy. The main buyers of Polish products are Germany and Russia.

The development of export has been caused, first of all, by:

- Price competitiveness
 - Lower labor cost
 - Ecological character of food (less chemicals)
 - Disappearing customs barriers
 - Market capacity for agro-industrial goods (mainly in eastern countries)
- ! The privatization process has been carried out in Poland consistently. The main form of privatization were sell-offs of state-owned enterprises to domestic and foreign investors. The foreign investors acquired shares in 146 companies, the majority of which were acquired by Germans - 28, then USA (13) and Holland (10).

- ! Government Agricultural Property Agency (Agencja Własności Rolnej Skarbu Państwa) had taken over 4,460,700 hectares of land until the end of June 1996 from which 323,800 hectares were sold.
- ! Poland counts in the world as the producer of food products. Yet, farms in Poland are broken up very much as about 50 percent of arable land belongs to individual farms of less or equal to 2 ha in area.

It is worth to invest in Poland in agro-industrial branches because of:

- Potential of Polish agriculture
- Domestic market
- Human resources in the country
- Export possibilities
- Low degree of agricultural crop processing
- New markets connected with European integration

In July 1997 Poland was invited to negotiations on the subject of joining the EU. This gives Poland new opportunities for economic development and especially agricultural development. The most important issue for Poland is the EU defining of the target CAP. It covers both the market and price policy and structural policy.

CHAPTER 2

FOREIGN INVESTMENTS IN POLAND

The inflow of foreign capital to Poland grows and becomes a driving force for many phenomena that support economic transformation processes. It is connected with the implementation of modern technologies and management methods, supplying the market with products of high quality standards and also supporting privatization programs.

Foreign investments are the important source of development of the country and individual regions. The dynamic growth of foreign investments can be observed in Poland and it is the best proof of a high mark Polish economy received in the world.

FOREIGN INVESTMENTS IN CENTRAL AND EASTERN EUROPE

Table 7
Foreign Investments in Central and Eastern Europe (in millions US\$)

Country	1994	1995	1990-1995	1996-2000
Hungary	1146	4400	11200	12968
Poland	1875	2500	7148	21969
Czech Republic	878	2500	5666	15466
Slovakia	187	200	775	2150
Slovenia	87	150	501	3052
Bulgaria	105	150	412	1428
Romania	340	400	933	4017

Source: Economist Intelligence Unit

According to the above table in 1995 Poland came in second (together with the Czech Republic) behind Hungary which achieved the highest value of foreign investments that year (US\$ 4,400 million). However, taking into account a 1996 - 2000 forecast we can note that Poland comes in first as far as foreign investments are concerned reaching US\$ 21,696 million value of foreign investments.

The most important reasons taken into account by foreign investors when directing investments to individual Central and East European countries include:

- Getting share in the market
- Using a market niche



- Low production costs
- Getting access to the EU markets

The reasons for which investments have been given up in Central and Eastern Europe are:

- Too high investment risk
- Improper political and social climate
- Lack of financial and credit institutions
- Lack of a proper investment partner
- Low probability of maintaining investment profitability

PROBLEMS RESULTING FROM FOREIGN INVESTMENTS IN THE CENTRAL AND EAST EUROPEAN REGION

Table 8
Indicated Problems of Foreign Investments in the Central and East European Region in Comparison with Other Regions in Percent

Problems	Central and Eastern Europe	Other regions
Unstable legislation and climate for investments	52	23
Difficulties in access to information	40	20
Difficulties in access to capital	36	17
Currency limits	33	9
Administrative barriers	31	21
Unclear ownership relations	17	7
Cultural and social problems	17	15
Hard to accept living standards of delegated employees	13	8
Taxes	6	11
Malfunctioning transport system	9	1
Other	4	9

Source: Deloitte Touche

From many difficulties foreign investors mention unstable legislation takes first place. It results from the fact that Central European countries have usually a political situation shaken

and high changeability of legal regulations. The lack of access to information means much more difficulty for investing (40 percent) than in developed countries (20 percent).

TYPE OF PREFERRED INVESTMENTS IN CENTRAL AND EASTERN EUROPE

Table 9
Type of Foreign Investments in Central and Eastern Europe

	Central and Eastern Europe in percent	Other countries in percent
Greenfield	41	60
Company acquisition / JV	59	40

Central and Eastern Europe is an especially favorable place for establishing companies with foreign capital (59 percent) when compared with other countries, yet 60 percent of investments in other than central or east European countries are operations in a new business or venture (green field investments).

Green Field Investments

It is, first of all, connected with expectations of individual investors. Green field investors are interested mainly in the possibility of choosing a location and offered services.

Investors choose green field investments because this is connected with:

- 100 percent ownership (full control)
- Lower number of administrative formalities and the possibility of quick start up of activity
- Elimination of a necessity to bear costs related to restructurization and conversion
- Elimination of responsibility for environmental pollution
- Opportunity to choose managers and employees freely, opportunity to implement own customs.

Every investor have different demands, therefore it is also very important to show him the image of a given location both what concerns its strategic character as well as details. Data related to sites and properties should be then analyzed regularly so that it is up to date, accurate, objective and would allows classification of them by price, size and location.

Joint-Venture Investments

Joint-venture investors buy usually everything, both ground and properties.

They are mainly interested in:

- Ownership rights
- Future of the business and thus the possibility of extending the ground and properties
- Present and expected value of the ground and properties

Investors are interested in joint-venture investments because of:

- Possible access to information and local contacts
- Immediate access to domestic market
- Takeover of a local product name of renown (this provides an advantage over competition and allows to obtain an adequate market share)
- Smaller requirements regarding investment minimum
- Opportunity to control company assets
- Access to an effective production base

What regards this group of investors regional authorities should:

- ! Recognize written promises made during negotiations.
- ! Help in guaranteeing investors a possibility to purchase additional ground for extensions, facilitate contacts with public utilities, designers, financial institutions, building contractors.
- ! Be prepared to help investors in finding additional or replacement units and grounds that suit their future requirements better. In that way the region improves its chances for next investment phases or new investments.

FOREIGN INVESTMENTS IN POLAND

According to data published by PAIZ (data refers only to investments exceeding US\$ 1,000,000) the value of foreign investments in Poland was US\$ 12,027,000 at the end of December 1996. In December 1994 the value of foreign investments was US\$ 4,321,000 while at the end of 1995 - US\$ 6,832,000.



Table 10
Companies with Foreign Capital Compared to the Total Number of Entities of National Economy Registered in the REGON Register in 1991 - 1995

Year	Number of companies with foreign capital	Share in total number of entities of national economy in percent
1991	5583	4.1
1992	10817	6.9
1993	15814	8.6
1994	20324	10.4
1995	24635	11.7

Source: Mamy Rocznik Statystyczny 1996 (1996 Small Year-Book)

Until the end of 1995 24,635 companies with foreign capital had been registered in Poland including: 24,086 commercial partnerships (including 553 joint-stock companies and 23,533 limited liability companies) and 549 small foreign businesses. That made up 11.7 percent of total enterprises specified in the REGON register; this share has increased almost threefold for the last four years.

The increase of foreign investments in Poland has been caused mainly by the increase of new investments but also by the development of existing companies. From earlier investments FIAT, an Italian car manufacturer, should be pointed out as the one that has invested US\$ 888.0 million.

Towards the end of 1996 there were 492 investors in Poland (exceeding US\$ 1,000,000) representing 28 countries while towards the end of 1995 this list included 362 investors.

The biggest group of foreign investors in Poland according to companies they own are:

— Germans - 113 companies

Next places are taken by investors from:

- USA - 77 companies
- France - 42
- Holland - 32
- Austria - 30
- Sweden - 30
- Italy - 29

- United Kingdom - 21
- Canada - 19

The fewest investors in Poland are from: Russia, Singapore, China, Luxembourg, Slovenia.

Table 11
Foreign Investments in Poland by Countries of Origin - 1996

Country	Loans and credits in millions US\$	Liabilities in millions US\$	No. of companies
USA	2,965.6	2,669.9	77
Germany	1,524.4	756.4	113
International	1,493.0	188.4	15
Italy	1,223.8	1,199.8	29
Holland	951.7	309.1	32
France	899.9	537.3	42
United Kingdom	509.0	363.9	21
Sweden	361.3	82.6	30
Switzerland	357.7	13.6	8
Australia	328.1	67.0	3
Austria	315.3	19.3	30
Denmark	238.2	22.9	16
South Korea	184.5	1 225.0	3
Ireland	105.7	11.4	3
Spain	94.3	103.5	2
Canada	94.1	23.0	19
Finland	92.9	62.9	9
Norway	80.1	12.0	5
Belgium	46.5	54.3	14
Japan	32.5	13.0	7
South Africa	25.0	40.0	1
China	25.0	25.0	1
Turkey	23.0	60.0	2
Russia	20.0	0.0	1
Singapore	13.0	60.0	1
Liechtenstein	12.3	10.0	4
Slovenia	4.9	0.0	1
Greece	3.6	3.0	2
Luxembourg	2.3	0.0	1

Total	12,027.7	7,933.3	492
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Despite the fact Germany is a leader as far as the number of companies Germans have in Poland is concerned the first place among the countries as far as the value of capital invested is concerned belongs to USA. Towards the end of 1996 the value of the U.S. investments was US\$ 2,965.6 million which made up 24.7 percent of total investments.

German companies come in second. By the end of 1996 they had invested US\$ 1,524.4 million (in 1995 - US\$ 683.0 million, in 1994 - US\$ 386.0 million). Next companies such as Swedish-Swiss ABB, British-Dutch Unilever or EBRD come in third - US\$ 1,493.0 million.

Next places are taken by Italy - US\$ 1,223.8 million, Holland - US\$ 951.7 million and France - 899.9 million. Last places on the list as far as the value of foreign investments in Poland is concerned are taken by Luxembourg, Greece, Slovenia and Liechtenstein which invested US\$ 2.3 million, US\$ 3.6 million, US\$ 4.9 million and US\$ 12.3 million, respectively.

The analysis carried out by PAIZ stresses the concentration of foreign capital in Poland. Towards the end of 1996 75 percent of capital came from 5 countries: USA, Germany, Holland, France and international groups.

Foreign Investments Broken Down by Sectors

Industry is the most attractive sector for foreign investors in Poland. The total value of investments in this sector was US\$ 7,482.9 million at the end of 1996 (in December 1995 - US\$ 4,325.6 million, at the end of 1994 - US\$ 2,588 million).

Food industry and machine and electrical engineering industry are the most attractive industrial sectors. The former has attracted US\$ 2,535.3 million as investments to repay debts (liabilities - US\$ 1,224.9 million) while the latter has attracted US\$ - 2,039.6 million (liabilities - US\$ 2,538.7 million).

The total value of investments in industry is 62.2 percent of total investments but almost 1/3 of this amount relates to investments in food industry.

The value of investments in other sectors of Polish economy is about US\$ 4.5 trillion but refers also to a case when investments in one sector dominate over other sectors. US\$ 2,522.9 million out of US\$ 4.5 trillion are investments in financial sector.

Beside industry and finances the most interesting sectors are:

- Building industry - US\$ 607.2 million
- Commerce - US\$ 709.6 million
- Telecommunications - US\$ 587.6 million

Fewest investments have been attracted by agriculture (US\$ 15 million) and municipal services (US\$ 24.8 million).

Table 12
Foreign Investments by Sectors (December 1996)

Sector	Loans and credits in millions US\$	Liabilities in millions US\$
Total industry including:	7,482.9	6,816.9
- fuel and electricity i.	182.8	1,491.1
- metallurgical i.	108.3	183.7
- machine and electrical eng. i.	2,039.6	2,538.7
- chemical i.	642.4	239.4
- extractive i.	748.0	796.2
- paper-making i.	608.4	89.1
- light i.	301.2	220.4
- food i.	2,535.3	1,224.9
- other	316.9	33.4
Building industry	607.2	251.1
Agriculture	15.0	0.0
Transport	48.0	4.5
Telecommunications	587.6	380.7
Trade	709.6	297.8
Municipal utilities	24.8	6.7
Finance	2,522.9	273.4
Insurance	29.7	2.2
Total	12,027.7	7,933.3

Source: PAIZ 1997

Foreign Investments in Food Industry

25 investors on the list of 100 biggest investors represent food industry (including tobacco industry). Those investments are concentrated in some areas leaving a lot of space for new investments.

The leading investments:

- ! In tobacco industry - 5 companies: Philip Morris (USA), Reemtsma (Germany), British American Tobacco Industry (International), Seita (France), R.I. Reynolds (USA), the total amount of US\$ 549 million has been invested
- ! In beverages by leading world groups Coca-Cola-Amtail - US\$ 275 million, Braun A.G. Germany, Henken (Holland), Brewpole (Australia), in total US\$ 367,5 million of investments
- ! In candies, chocolates: Nestle, Pepsico, Mars Incorporated, Cadbury`s (UK), Tchibo (Germany), Schaller (Germany), Kraft Jacobs Suchard A.G. (International), Mc Vites Group (UK), Coco Barry (France) - in total US\$ 509,2 million.

Other investments relate to: fat processing - Unilever (International), Schooner Capital Corporation (Germany), meat processing: Globe Meat Technology (Denmark).

The following areas of activities leave space for investments:

- Potato processing
- Fruit and vegetable processing
- Meat processing
- Dairy work
- Cold storage plants

Investments in fruit and vegetable processing that are very welcome have reached only 3 percent so far - US\$ 28 million and 3.5 percent in potato processing.

The value of foreign investments in Poland should exceed US\$ 22 trillion until 2000. It means that Poland will attract about 50 percent of total foreign investments in Central and Eastern Europe.

OPPORTUNITIES AND BARRIERS FOR FOREIGN INVESTMENTS IN POLAND

Benefits resulting from foreign investments in Poland:

- Increase of employment and guaranteed employment
- introduction of new equipment and technologies
- Implementation of new management techniques and methods
- Development of local workforce skills
- Development of new industries
- Foreign companies participate in the decrease of trade deficit
- Improvement of living standards
- Increase of competition in economy
- Higher inflows to the budget, higher inflows from taxes

At the end of 1994 companies with foreign capital employed 373.9 thousand people which made up 3.3 percent of total employment of economic entities. The comparison of the share of companies with foreign capital to total employment and the number of active economic entities indicates that they are usually small businesses, smaller than average ones in total economy.

In the group of companies with foreign capital small entities (5 employees or less) made up 49.1 percent compared to 38.3 percent of economic entities, while the share of big companies (more than 50 employees) was 19.2 and 31.8 percent, respectively. An average number of employees per one company (43) was almost lower by half than the average in total economy.

At the same time companies with foreign capital used employees much more effectively than did domestic economic entities in general. In 1994 labor efficiency measured by means of revenue value per one employee was in by 77 percent higher the former case than the average for all entities.

Reasons of the growth of foreign investors' interest in Polish market.

- Low workforce cost
- The size of Polish market
- Prospects of economic growth
- The supply of workforce
- Possibility to reduce production costs
- Ownership guarantee
- Legal safety
- Favorable conditions for activity
- Price level

- Possibility to transfer profits

The concerns of foreign investors regarding their business in Poland are as follows:

- Unfavorable changes in legal regulations
- Possibility of tax and other charges increase
- Destabilization of political situation
- Increase custom duties
- Problems with the sales of goods and services
- Dishonest competition from Polish companies
- Dishonest competition from western companies

Main barriers resulting from investing in Poland are as follows:

- ! **Barriers of demand.** They are less severe for companies with foreign capital than for enterprises in general. This refers especially to the barrier of insufficient domestic demand and import competition.
- ! **Barriers of supply.** Are also less severe for joint ventures than for entities in general, especially what concerns production assets. Domestic processing enterprises complain about an obsolete stock of machines as a factor limiting their current activity. Western companies, on the other hand, notice the lack of skilled employees.
- ! **Financial barriers.** Are less severe for joint ventures. These companies can experience less problems related to obtaining loans and the level of an interest rate.
- ! **System barriers.** Joint ventures do not experience problems connected with privatization, yet they estimate the situation and quality of legal regulations much worse than entities in general.

SUMMARY

The number of foreign investments in Poland which contribute to introducing modern technologies and management techniques and supplying the market with high quality products grows considerably.

Taking the dynamic growth of foreign investments in Poland into account Poland will take first place in 2000 arriving at US\$ 21.696 million value of foreign investments.



The growth of foreign investments in Poland is caused mainly by:

- Getting a share in the market
- Using a market niche
- Low production and labor costs
- Getting access to the EU markets

Foreign investors who invest their capitals in Poland prefer joint venture investments more often to green field investments. It is caused by lower costs and a shorter time needed for start up of activity.

The biggest foreign investor on the Polish market as far as the number of companies owned is concerned is Germany (113 companies). However, as far as the value of capital invested is concerned, the biggest investor is USA with the investment value in 1996 making up 24.7 percent of total investment value.

Industry is the most popular sector among foreign investors and the value of foreign investments there in 1996 made up 62.2 percent of total investments one third of which are investments in food industry.

Investments most welcome will be investments in fruit and vegetable processing including potato processing.

CHAPTER 3

DOMESTIC INVESTMENTS IN POLAND

ENTITIES OF NATIONAL ECONOMY

In recent years the growth of the total number of economic entities has been observed. In 1995 210,262 entities of national economy were registered in the REGON register. Commercial partnerships - 104,922- were most numerous including 24,086 companies with foreign capital.

There are much fewer foreign manufacturers of small products; their number dropped from 787 in 1991 to 549 in 1995.

Table 13
Entities of National Economy Registered in the REGON Register

Year	Total number	State-owned firms	Municipal firms	Commercial partnerships	Incl. comp. with foreign capital	Co-operatives	Foreign manufact. of small products
1991	135,510	8,228	741	53,771	4,796	18,949	787
1992	155,881	7,245	542	69,907	10,131	19,372	686
1993	183,256	5,924	647	83,283	15,167	19,746	647
1994	196,152	4,955	564	95,017	19,737	19,816	587
1995	210,262	4,357	482	104,922	24,086	19,822	549

Source: Rocznik Statystyczny 1996 (1996 Year-Book)

The highest number of enterprises in Polish economy belong to a sector - commerce and repair services (43,217). The majority of businesses are connected with wholesale and consignment sales and are estimated to make up 31,586 enterprises registered in the REGON register in 1995.

Industry comes in second with 30,916 companies in operation. This number includes 29,342 manufacturing companies with the highest share from food and beverages production (4,229 companies) and machinery and equipment production (2,630 companies).

Third place is taken by real estate and company supporting services - 26,852 companies including computer information systems, leasing of machines and equipment and activities related to running business. Next places are taken by building industry - 15,972



companies, agriculture - 9,421 companies, transport and storage - 5,544 companies and financial intermediation - 3,105 companies.

Commercial partnerships dominate in numbers in all sectors; in 1995 they were most numerous in trade and repair services - 38,001 and in industry - 25,077. The fewest commercial partnerships, on the other hand, can be found in all sectors of municipal enterprises and foreign manufacturers of small products in Poland.



Table 14
Entities of National Economy Registered in the REGON Register in 1995 (by most important sectors)

Description	Total number	State-owned enterprises	Municipal enterprises	Commercial partnerships	Commercial partnerships with foreign capital	Cooperatives	Foreign manufacturers of small products
Industry	30,916	2,057	173	25,077	6,982	2,569	449
Manufacturing	29,342	1,904	82	24,204	6,850	2,557	449
Food and beverage production	4,229	259	5	3,348	1,133	567	34
Machine and equipment production	2,630	417	36	2,016	420	123	22
Building industry	15,972	789	106	13,634	1,618	1,034	52
Commerce and repair services	43,217	524	25	38,001	9,575	3,761	27
Wholesale and consignment sales	31,586	378	11	29,151	6,984	1,268	16
Agriculture and forestry	9,421	83	9	2,222	454	3,810	1
Transport and storage	5,544	493	30	4,454	1,269	313	6
Financial intermediation	3,105	1	–	1,118	225	1,785	–
Real estate and company supporting services	26,852	346	83	15,593	2,704	6,202	10

Source: *Mały Rocznik Statystyczny 1996* (1996 Small Year-Book)



The number of commercial partnerships in Poland grows considerably, especially of limited liability companies. The number of those companies increased from 66,426 in 1991 to 99,239 in 1995. The highest number of limited liability companies can be found in commerce - 36,529 and industry - 23,183.

A dynamic growth has also been observed in case of joint-stock companies which number grew from 2,624 in 1991 to 4,740 in 1995. The highest number of those companies can be found in industry - 1,719, especially in manufacturing - 1,599. The number of limited partnerships has increased, as well (144 in 1995 compared to 49 in 1991), while a decrease has been noted in case of general partnerships which number dropped from 808 in 1991 to 799 in 1995.

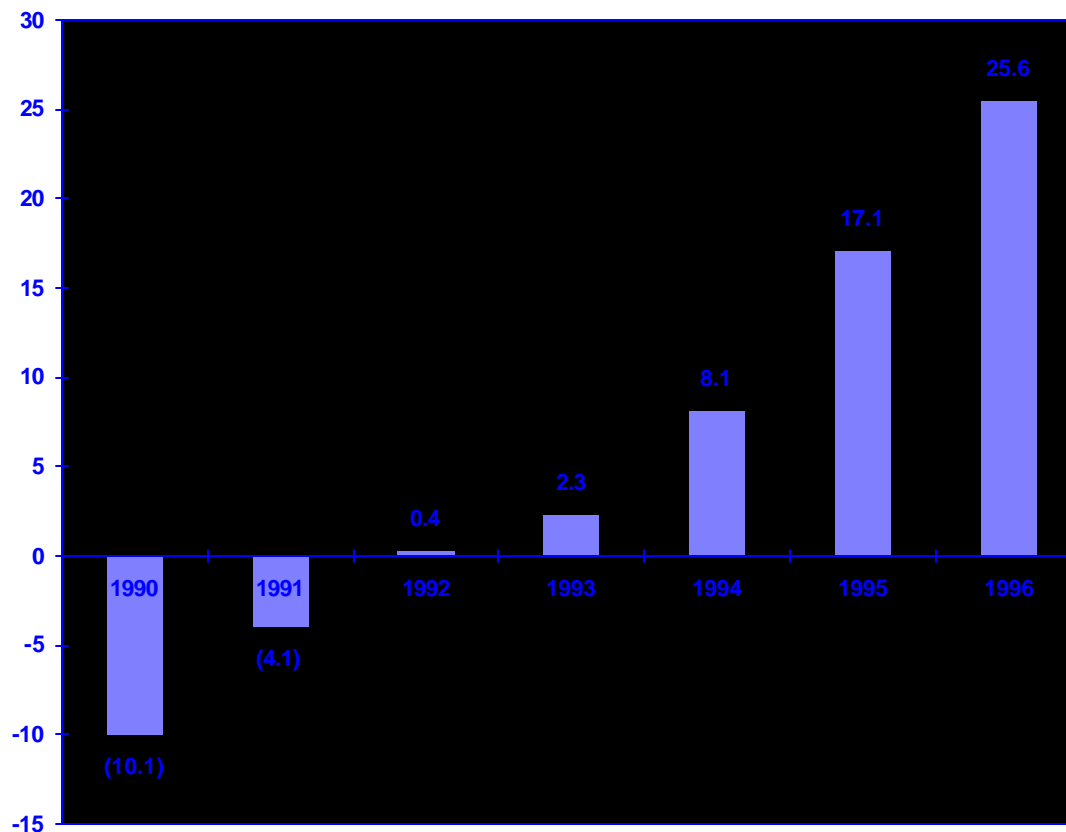
DOMESTIC INVESTMENTS

The rate of investment progress in Poland still grows. Polish enterprises spent almost 40 billion zloty on investments in 1996 - 26 percent more than in 1995.

There have been more and more outlays on machinery and production equipment purchases in an expenditure structure - 60 percent of expenditures. Between January and April 1997 company outlays on machinery and equipment purchases as well as expenditures on buildings and structures were about 10,6 billion zloty.



Diagram 2
Increase of Capital Expenditures Compared to 1995 (in percent)

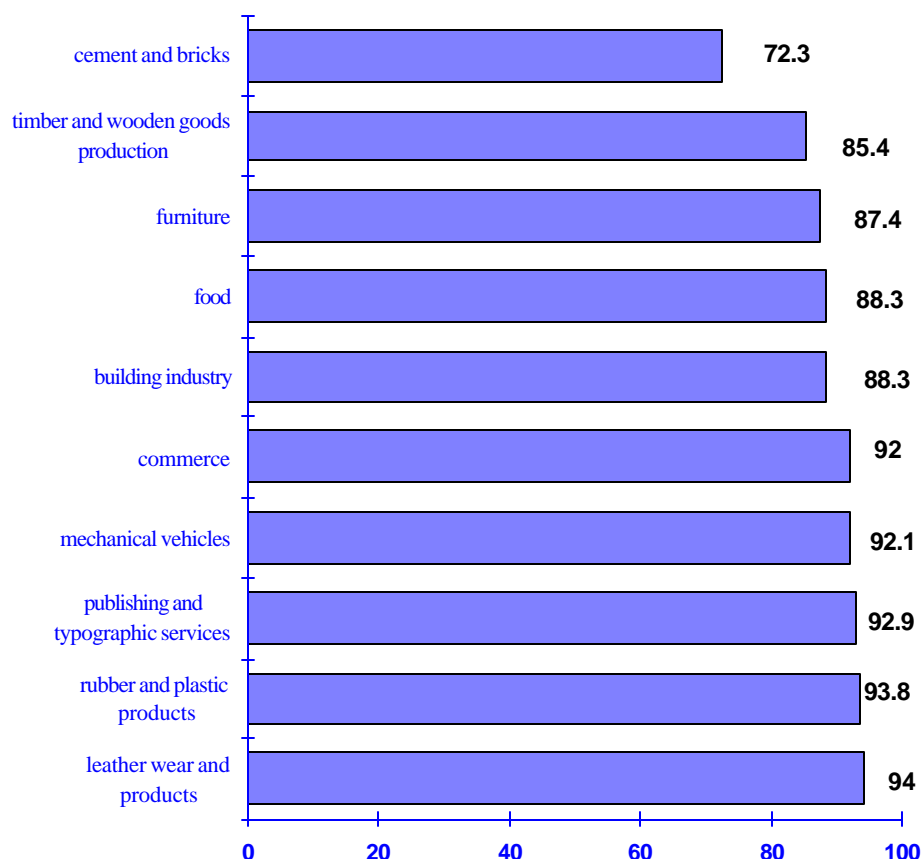


The highest growth of investments has occurred in the private sector. The entities in this sector invested about 65 percent more in 1997 than in 1996. The increase in expenditures in the public sector was about 18 percent in that time.

Over the half of investment funds - 52,3 percent were allocated by private companies to production, including mainly the development of food and beverage industry. Private companies invested also in capital purchases that covered about 61 percent of all expenditures of this sector in 1997.

Diagram 3
Private Sector Share in Total Capital Investments: I - IV 1997 (in percent)

Production



In 1996 the enterprises of the private sector reached a financial result higher by 60 percent from their result in 1995 and their share in total sales increased from 42 to 49 percent. On the other hand, the financial result of the enterprises of the public sector decreased from 5.9 percent in 1995 to 4.1 percent in 1996.

12 companies in textile material finishing business took the first place in a gross turnover profitability ranking at the end of December 1996. A profitability ratio for the whole group was as high as 113.2 percent in December 1996 while an average for 188 industries was 3.16 percent.

At the similar period of 1995 this industry was only on 179th place with a negative ratio (65.17 percent) and thus belonged to biggest losers. A change took place in February 1996 when the group of textile material finishers had the gross profitability ratio as high as 529.34

percent. This profitability decreased in the next months to the level of December 1995. In January 1997 this industry was loosing again.

The profitability of most profitable industries as at the end of December did not exceed 20 percent. The highest ratio - 18.88 percent characterized pharmaceutical production. Next group in the ranking related to ceramic tiles - 16.71 percent and then data processing - 15.01 percent. Gross turnover profitability of remaining groups was, yet, lower than 15 percent.

Table 15
Industries with the Highest and the Lowest Profitability (in zloty per ZL 100 of net sales)

Industries with the highest profitability	Ratio	Industries with the highest losses	Ratio
Textile material finishing	113.2	Mineral mining for chemical industry	13.1
Pharmaceuticals	18.88	Electronic elements	13.0
Ceramic tiles	16.71	Leather wear	12.9
Data processing	15.01	Shipbuilding and repairs	10.8
Chemical products	14.80	Stone coal	9.89

The year 1996 was characterized, among other things, by the decrease of highest profitability levels. After the first quarter of 1996 six industries had gross profitability above 20 percent. They were, among others, telecommunications with the ratio of 36.21 percent, radio and TV business - 25.75 percent, machinery for agriculture - 25.16 percent, and also fruit and vegetables and salt production.

SMALL AND MEDIUM-SIZE ENTERPRISES

Small and medium-size enterprises make up a predominant number of economic entities in Poland.

There used to be various definitions of small business in Poland in the past. Yet, when the European Commission suggested an adequate definition in April 1996, Poland accepted it as well. The definition refers especially to the number of employees, turnover, balance sheet total and puts an emphasis on ownership criteria.

The European Union defines small enterprises as:

- ! Independent enterprises, i.e., “if at the very most 25 percent of enterprise capital belongs to other company/companies and a big enterprise possesses at the very most 25 percent of small or medium enterprise capital”
- ! Small enterprises employ less than 50 employees
- ! Their annual turnover does not exceed ECU² 7 million (PLN 25.9 million) and annual balance sheet total does not exceed ECU 5 million (PLN 18.5 million)

The EU regards medium-size enterprises as those that:

- Employ not more than 250 employees
- Reach annual turnover of less than ECU 40 million (PLN 148 million), and annual balance sheet total does not exceed ECU 27 million (PLN 99.9 million)

The commercial law, i.e., the law on business activity, passed in 1988 and system changes in 1989 created favorable conditions for small and medium enterprise activity. Their number increased every year. It increased by 1 million over two years. Towards the end of 1991 there were 1,420,000 independent enterprises on the Polish market including 550,300 enterprises in commerce, 348,900 in processing crafts, 287,000 in services, 171,700 in building industry and 62,100 in transport.

Many different companies joined over the next years, yet, we must remember that beside companies that were founded many businesses closed down. An thus in 1991 - 1995 over 1,790,000 businesses were set up while 718.000 disappeared from the market.

At the moment there are over two millions small and medium-size enterprises that make up about 95 percent of all economic entities. From 2,014,303 enterprises registered at the end of 1995 827,340 businesses were connected with commerce (an increase by 266,991 with comparison to 1991), 564,794 with services (an increase by 277,809), 325,857 with processing crafts (a decrease by 23,065), 204,633 with building industry (an increase by 32,968) and 91,679 with transport (an increase by 29,598).

A decrease was observed only in processing crafts as, towards the end of 1995, the number of businesses in that area was by 23,065 lower than at the end of 1991. Many businesses could not come up to growing competition, since they lacked investment funds for new production. The most severe slump in this branch occurred in 1994 when over 23,000 businesses had to declare bankruptcy.

² ECU 1.00 equals PLN 3.70.

At present a slow growth tendency can be observed. At the end of 1995 there were 4,160 companies more than at the end of 1994. In the first quarter of 1996 15 percent of all small and medium-size enterprises belonged to processing crafts sector.

In 1995 small business generated about 50 percent of GNP employing 35 percent of all employees in the country and 78.7 percent of employees of the private sector. At the end of 1995 there were more than two million small enterprises with the number of employees below 50 and only twelve thousand medium-size enterprises with the number of employees between 50 and 250 in the following sectors:

- 887,000 small and 246 medium in commerce
- 299,000 small and 1,354 medium in processing crafts
- 200,000 small and 549 medium in building industry
- 628,000 small and 9,137 medium in other industries

Two-third of small enterprises, still an overwhelming majority, are family businesses where members of the owner's family work together with the owner. From 1990 - 1994 those enterprises generated 1.5 million jobs. The highest number of family businesses can be found in Warsaw and Katowice Provinces and the lowest number is in Biała Podlaska, Chełm and Łomża Provinces.

Polish policy related to small business has not been on a too wide scale, yet. Almost all EU countries support medium-size enterprises under support programs and with other means although all subsidies must obtain an EU approval beforehand to eliminate unequal chances. One of the criteria of loan granting is a company capital below ECU 75 million and other capital shares below 30 percent.

Poland tries to create better conditions for medium-size and small enterprises, therefore a government program provides for the following sources of funding: own capital, foreign funds (e.g., EU support programs or support programs of individual countries like TRANSFORM, a German government program) and national budget. Support is assumed to generally equal 15 percent of investment costs. In those parts of the country that due to the high level of unemployment and infrastructure underdevelopment offer especially favorable conditions, this support may equal 25 - 30 percent of costs. When carrying out training and professional skills improvement programs one can apply to the government for a subsidy equal to 50 percent of funds needed.

The European Commission has postulated the development of PHARE program as an important instrument of financial assistance in preparing Polish membership in the EU. PHARE started to operate in Poland as early as 1990 and allocated ECU 1.2 billion (PLN 44.4 billion) for Polish needs till the end of 1994. ECU 250 million (PLN 925 million) from that amount was earmarked for the development of the private sector, the development of small

and medium-size enterprises, modernization of banks, the support of foreign investments and regional development. ECU 167 million was earmarked for the restructuring of agriculture.

OPINIONS OF MANAGERS ON ECONOMIC SITUATION IN POLAND

Since 1992 "Rzeczpospolita" newspaper has been carrying out opinion polls among Polish managers on managing business activity in Poland and expectations related to that. This year poll (in 1997) covered 540 top managers - company managing directors and deputy directors, presidents and vice-presidents of commercial companies and co-operatives as well as the owners of private enterprises managing their businesses on day-to-day basis.

Among numerous questions asked investors the most important one was what arouses highest concern in them when they think about their companies.

Table 16
Investors' Answers About Running Business Activity in Poland

Ref.	Answer	Percent of "T" marks (1995-1996)	Percent of "T" marks (1997)
1.	Instability of law	30.7	43.0
2.	Market too small	16.9	7.1
3.	Uncertain political situation	—	3.2
4.	Maintaining financial liquidity	12.6	23.4
5.	Expensive bank loans	11.7	26.9
6.	High contributions to the state social insurance fund, ZUS	11.0	52.5
7.	Increase of company costs	9.8	19.5
8.	Dishonest competition	9.6	22.1
9.	Lack of capital	9.6	8.3
10.	Ensuring orders	8.4	16.0
11.	High production costs	4.9	8.3
12.	High taxes	—	31.9
13.	Small capital allowances	4.0	7.2
14.	Political instability	16.4	2.0

In comparison with the period of 1995 - 1996 the first among declared sources of concern in 1997 about the future of a company definitely became a financial threat and it is the first of all factors responsible for worsening of the mood of Polish managers.

In 1997 a concern related to high contributions to ZUS increased. More managers pointed at expensive bank loans (26.9 percent) as inconveniences in running economic activity in Poland in 1997, compared to 11.7 percent at the turn of 1995.

Answers given in 1997 indicate clearly that the feeling of threats related to the level of contributions to ZUS - indicated by 52.5 percent of managers compared to only 11.0 percent at the turn of 1995, high taxes - 31.9 percent in 1997 and high loans - 26.9 percent pointed at in 1997 (11.7 percent in 1995 - 1996) affect optimism of the managers in a negative way.

Due to those unusual fiscal burdens maintaining financial liquidity is a much more important source of concern than guaranteeing a relevant order portfolio to the company. This feeling of danger is enhanced by a conviction about the instability of law and taxes declared by 43 percent of managers, yet, they do not seem to combine that with political instability.

The feeling of threat related to dishonest competition increased. 9.6 percent of managers declared it at the turn of 1995 and 22.1 percent in 1997. Dishonest competition may result from the activity of a twilight zone or subsidies and privileges extended by the state to some entities. In either case it is the state that is responsible for protecting competition.

Due to this concern resulting from government activity it is surprising that only 2.0 percent of managers pointed to the political instability as the source of concern about company future in 1997 while at the turn of 1995 there was as much as 16.4 percent of such indications.

In 1997 opinion poll an "uncertain political situation" was a separate category. 3.2 percent of managers pointed at it, however this result is surprising taking into account parliament elections approaching.

That should be explained in three ways:

- A conviction that the existing arrangement of political forces will not undergo fundamental changes
- A conviction that the change of political arrangement will not bring about any additional company threats
- Freeing managerial staff of the political element, "turning managers' backs" on political scene and focusing on company matters

The breakdown of a growing tendency of managerial optimism during last year must be attributed to the feeling of threat related to excessive fiscal burdens, since, at the same

time, the answers indicate more optimistic ratings of many important parameters of business activity in 1997 in comparison to 1996.

A concern about too small a market decreased definitely. As much as 16.9 percent of managers declared it at the turn of 1995 while only 7.1 percent in 1997. The managerial staff evaluates the prospects of economic development and the growth of both domestic and foreign demand optimistically.

Managers that answered the opinion poll in 1997 do not perceive serious menace related to bribery and malfunctioning of telecommunications and postal services.

Despite so many threats managers asked about a climate favorable for investments in Poland answered "rather yes".

These opinion polls that have been carried out since 1992 were based on a sample group of individuals, respectively:

- 1992 - 498
- 1993 - 502
- September 1994 - 520
- February 1994 - 512
- The turn of 1995 - 465
- 1997 - 540

Table 17
Climate Favorable to Investments in Poland (in percent)

Period	Definitely yes	Rather yes	Rather no	Definitely no
1992	4.8	44.4	37.1	13.7
1993	6.8	46.4	37.5	9.4
February 1994	7.6	53.1	30.2	9.0
September 1994	13.7	58.7	22.5	5.2
1995 - 1996	11.6	72.5	14.6	1.3
1997	13.9	70.5	14.1	1.5

Source: COOPERS & LYBRAND, PBS

The tendency of optimism growth is clear. This tendency is stronger in the private sector, in medium-size companies defined by turnover number (not exceeding 15 million zloty)

and in the group of staff with university degrees. Managers of smaller companies have more pessimistic inclination in assessing the climate for doing business in Poland.

The meaning of answers to a question about the evaluation of the changes in Polish economic situation is slightly more ambiguous.

Table 18
Changes in Polish Economic Situation (in percent)

Period	Improved	No change	Worsened	Hard to tell
1992	11.0	31.0	50.0	6.0
1993	16.0	26.0	46.8	9.0
February 1994	13.7	34.2	43.6	8.6
September 1994	26.2	36.8	28.1	9.0
1995 - 1996	48.7	33.8	9.3	8.2
1997	30.4	40.8	19.5	9.3

Source: COOPERS & LYBRAND, PBS, RZECZPOSPOLITA

It turns out from the opinion poll carried out that the decrease of managerial optimism results clearly from economic policy performed by the government, an especially from an excessive level of tax and other obligatory charge burdens (contributions to ZUS), from too high the price of capital (interest rate policy) and from insufficient protection of competition.

Other operating conditions make managers more optimistic. A positive rating of the market size is especially important. Fewer and fewer individuals express doubts about the size of the market in Poland. It means that managers have learned a modern view of sales. They do market surveys, define its needs, do marketing and so they know their customers' needs before they offer their customers their goods.

Managers do not perceive a threat from politics. Many of them think that system changes have gone too far to allow some political changes threaten them. Thus, such a low percentage of answers with doubts about political stability.

The polls carried out by "Rzeczpospolita" newspaper show that only one fourth of Polish managers feel threats related to foreign companies on the market - 24 percent of managers in 1997 compared to 17 percent in 1996.

Yet, there is an awareness of a prospective abrupt growth of threat during next 2 - 3 years (49 percent of managers - 1997, while 40 percent in 1996).

When evaluating threats from foreign competition, industrial companies (64 percent in 1997), joint-stock companies (60 percent) and state-owned companies (57 percent) are aware of a high threat more often.

23 percent of private companies feel threatened by foreign companies and so do small businesses employing 5 - 20 staff - 45 and 58 percent of big companies (over 500 employees).

SUMMARY

The rate of investments in Poland shows a dynamic growth. Most capital expenditures are related to purchasing of production machines and equipment.

The private sector which allocates 52.3 percent of outlays mainly to the development of food and beverage industry stands out in domestic investments.

Small and medium-size enterprises that make up about 95 percent of total economic entities in Poland become more and more important. At present, there are over 2,000,000 small enterprises with the number of employees up to 50 and 12,000 medium-size enterprises with the number of employees between 50 and 250.

Despite the growth of domestic investments the owners of economic entities indicate difficulties in running business in Poland that result from:

- High contributions to ZUS
- High interest rate on bank loans
- High taxes
- Unstable law

Polish managers that own small private businesses do not feel very threatened by foreign companies. Yet, such a feeling is shared especially by big state-owned enterprises, joint-stock companies and co-operatives.

Looking at sectors of business activity the highest threat is felt by industrial and commercial enterprises, which results from the introduction of supermarket chains in Poland.

CHAPTER 4

KUTNO REGION

DESCRIPTION OF KUTNO AND THE REGION

For purposes of a comprehensive description of the area of our interest we will analyze the area 50 kilometers in range around Kutno. This area covers parts of Płock Province as well as such neighboring Provinces like: Konin, Włocławek, Skierniewice and Łódź - the total area of 31,000 square kilometers.

Kutno with the population of 51,000 is the second city in the Province and at the same time the capital city of the region covering the southern part of the Province. Other bigger towns of the area are Krośnice (10,000 inhabitants), Łochów and Łowicz (15,000 inhabitants).

The greatest asset of Kutno is its central location on the intersection of two international roads, E-30 west - east (Berlin - Moscow) and E-75 north - south (Gdańsk - Vienna). Local road system complies with these trunk roads and therefore the city has a very good connection with Płock, Łódź, Warsaw and Poznań.

A superhighway building program assumes that the north - east superhighway will cross Kutno Municipality (Gmina) while the east - west superhighway will omit the region in a Stryków - Łódź direction.

The biggest goods and passenger rail junction has been located in Kutno. It has connections with many important centers at home and in Europe and an excellent freight handling base for goods transport purposes. An airport for cargo planes has been located in Łowicz, about 25 kilometers from Kutno and a helicopter airport has been situated in Kutno itself. Such a position of the region is conducive to a fast development of transport.

40,000 people in their production age live in the region. Those people have various educational background. The Kutno youth have can learn in local schools. There are high schools, vocational schools and a trade college (politechnika zawodowa). Universities in nearby Łódź, Warsaw, Toruń and Poznań can provide education to high-class specialists.

Local population is characterized with good abilities of adapting to changeable conditions and developing new skills. It has been proved by numerous attendants participating in training courses organized by Zakład Doskonalenia Zawodowego (worker training center) and the Regional Labor Offices as well as by a growing tendency in registering private economic entities. Until 25 March 1997 23,393 economic entities had been registered in Płock Province, 95.8 percent of which belong to the private sector.

Table 19
Private Sector Entities of Płock Province

Entity type	Percent
Entities operating against the law on economic activity	91.6
Commercial partnerships	3.2
Co-operatives	1.5

Source: Wojewódzki biuletyn statystyczny, 1997 (Provincial Statistical Bulletin, 1997)

In the first quarter of 1997 2,249 economic entities received statistical identification numbers, REGONs, i.e., 40.3 percent more than in the fourth quarter of 1996. 99.8 percent (2,245) of them are private sector entities.

Table 20
REGON Numbers by EKD (European Activity Code) Section

EKD (European Activity Code)	Number
Wholesale and retail, motor vehicle, motorcycle and household appliances repairs	956
Real estate services, leases and business supporting services	202
Manufacturing activity	202
Transport, stock management and communications	181
Building industry	168

Source: Wojewódzki biuletyn statystyczny, 1997 (Provincial Statistical Bulletin, 1997)

Table 21
Employment Structure of the Region Compared to the Employment Structure of the Province

Description	Province (percent)	Kutno region (percent)
The employed in:	100.0	100.0
- agriculture	43.7	2.0
- industry	20.4	39.0
- commerce and services	7.7	8.0
- transport and communication	4.5	12.0
- other	23.7	39.0

Source: Analiza i koncepcja przedsi"wzi"f inwestycyjnych w zakresie eksportu warzyw i ich przetworów w regionie kutnowskim, 1997 r. (Analysis and conception of investment projects related to vegetables and vegetable processed products export from Kutno region, 1997)

The number of people professionally active decreased in Kutno in 1990 - 1992. In 1995 the decreasing tendencies were stopped and this number was - 21,596.

Table 22
Number of People Professionally Active in Kutno

Year	Number
1990	19,475
1991	19,205
1992	16,019
1995	21,596

Source: Przegl"d i analiza zasobów (Resource inspection and analysis)

A Kutno job market offers an enormous labor supply to investors entering this area (11,548 unemployed registered as at 31 December 1996 which makes up 18.3 percent of the population professionally active). It must also be noted that Kutno region has had the highest growth of unemployment in Płock Province in recent years.

The structure of workforce consisting mainly of young people between 18 and 35 years old (58.7 percent of the total unemployed) is also an incentive to invest. Taking the education level of the unemployed into account we can notice that the majority have elementary and vocational education (75.2 percent of the total unemployed). We can conclude from this that the workforce will be cheap. The low education level of the majority of the unemployed in Kutno region can be a negative factor, especially for the investors who seek high-qualified staff.

It is also important that as many as 48.2 percent of the total unemployed have no right to obtain unemployment benefits. Therefore, we can assume that those people will be most interested in getting jobs.³

ASSESSMENT OF KUTNO AS A PLACE FOR INVESTMENTS

³ KPAP - presentation during Kutno workshop, 10-13 March 1997.

Instytut Badań nad Gospodarką Rynkową - IBGR (Research Institute for Market Economy) made a city ranking according to city investment attractiveness. The ranking covered all capital cities of Provinces and other cities with the population of over 50,000.

It is difficult here to discuss the attractiveness of individual cities, since something that attracts an investor from one industry can deter an investor from a different field.

A summary index has been built on the basis of 67 partial indexes. These indexes relate to:

- ! A local market absorptive capacity (connected with market size, wealth of local community and an existing economic activity). In case of this index it is important to take a broader environment (region) profile into account, since an investor usually considers the absorptive capacity of a bigger market (focused on a few cities), when making a decision on an investment location.
- ! A local labor market quality and social climate for investments. This group can be defined as a "human factor". They regard both the level of education and the profile of workforce and also political stability and activity of local community.
- ! Technical infrastructure and business environment infrastructure.
- ! Accessibility (e.g., location in regard to existing international roads, superhighways planned, railway main lines, airports, ports, border checkpoints).
- ! Marketing activity of local authorities.
- ! Effectiveness of economic transformation including: privatization progress, activity of foreign investors so far. The surveys of the World Bank show that a factor that attracts investors is a prior location of a big enterprise representing a well-known trademark.
- ! Tourist attractiveness.

The cities undergoing the analysis were divided into 7 classes, from A to G. A class indicates a very high investment attractiveness and G indicates the lowest..

Seven cities were included in A class:

- Warsaw
- Gdańsk
- Katowice

- Cracow
- Poznań
- Szczecin
- Wrocław

Next five cities make up B class:

- Gdynia
- Jelenia Góra
- Łódź
- Opole
- Toruń

No cities were included in G class, however the following cities are in F class:

- Jastrzębie Zdrój
- Legionowo
- Mielec
- Myszków
- Piekary Śląskie
- Zawiercie
- Ruda Śląska
- Stalowa Wola
- Starachowice
- Świdów
- Wodzisław
- Żory

Kutno was included in E class (a detailed index schedule - table 23).

Table 23
Investment Attractiveness of the Cities - Summary Indexes

City	Summary index	Market absorptive capacity	Labor market quality and social climate	Technical and business infrastructures	Accessibility	Transformation effectiveness	Tourist attractiveness
	1	2	3	4	5	6	7
Warsaw	A	A	A	A	A	A	A
Gdańsk	A	A	B	B	C	B	A
Katowice	A	B	A	A	A	C	D



City	Summary index	Market absorptive capacity	Labor market quality and social climate	Technical and business infrastructures	Accessibility	Transformation effectiveness	Tourist attractiveness
	1	2	3	4	5	6	7
Warsaw	A	A	A	A	A	A	A
Cracow	A	A	A	B	B	B	A
Poznań	A	A	A	A	A	A	A
Szczecin	A	B	B	B	A	B	C
Wrocław	A	A	A	A	A	A	A
Gdynia	B	D	B	C	C	B	C

Table 23 (Continued)

City	Summary index	Market absorptive capacity	Labor market quality and social climate	Technical and business infrastructures	Accessibility	Transformation effectiveness	Tourist attractiveness
	1	2	3	4	5	6	7
Jelenia Góra	B	D	E	D	C	C	B
Łódź	B	B	A	B	C	B	D
Opole	B	C	B	C	B	C	D
Toruń	B	C	C	D	B	D	A
Białystok	C	D	C	C	D	D	C
Bielsko Biala	C	B	C	C	D	C	D
Bydgoszcz	C	B	D	D	B	C	D
Częstochowa	C	C	C	D	B	D	C
Gorzów Wlkp.	C	D	D	C	C	C	D
Kalisz	C	B	D	D	D	D	D
Kielce	C	D	C	D	C	D	B
Leszno	C	C	E	C	B	D	E
Lublin	C	B	A	B	D	D	B
Olsztyn	C	C	B	C	C	D	C
Płock	C	A	D	B	D	D	D
Rzeszów	C	C	B	B	E	D	C
Siedlce	C	C	D	C	D	D	D



City	Summary index	Market absorptive capacity	Labor market quality and social climate	Technical and business infrastructures	Accessibility	Transformation effectiveness	Tourist attractiveness
	1	2	3	4	5	6	7
Warsaw	A	A	A	A	A	A	A
Zielona Góra	C	C	C	B	D	C	D
Ciechanów	D	D	D	D	E	D	D
Chorzów	D	D	E	E	C	D	E
Dąbrowa Górnicza	D	C	C	E	B	E	F
Elbląg	D	D	E	D	C	D	D
Gniezno	D	E	E	D	D	D	C
Gliwice	D	C	D	D	D	D	E
Inowrocław	D	E	E	E	C	D	E
Kędzierzyn Koźle	D	B	F	D	E	D	E
Konin	D	C	E	D	D	D	D
Koszalin	D	E	C	C	D	D	D
Legnica	D	E	E	D	C	D	D
Lubin	D	D	F	D	D	D	E
Nowy Sącz	D	D	D	D	E	D	D
Ostrów Wlkp.	D	E	E	D	C	D	E
Piła	D	C	D	D	D	E	C
Piotrków Tryb.	D	D	D	D	B	D	D
Puławy	D	C	B	D	F	E	B
Pruszków	D	C	D	A	E	C	F
Radom	D	E	D	E	B	D	E
Skierniewice	D	D	D	C	C	D	D
Sępólno	D	F	D	E	D	D	C
Sosnowiec	D	C	D	E	D	E	E
Stargard Szcz.	D	F	E	E	B	D	D
Tarnów	D	C	C	D	E	E	D
Tychy	D	D	D	E	C	D	E
Zamość	D	E	D	B	G	E	A



City	Summary index	Market absorptive capacity	Labor market quality and social climate	Technical and business infrastructures	Accessibility	Transformation effectiveness	Tourist attractiveness
	1	2	3	4	5	6	7
Warsaw	A	A	A	A	A	A	A
Bełchatów	E	E	F	D	E	E	D
Białdź	E	C	C	E	D	E	D
Biała Podlaska	E	E	E	B	E	E	E
Bytom	E	F	F	E	C	D	F
Chełm	E	D	D	D	G	E	D
Elk	E	F	F	D	G	E	D
Głogów	E	F	E	D	D	D	E
Grudziądz	E	F	E	F	D	E	D
Jaworzno	E	C	E	F	D	E	E
Krosno	E	E	E	A	G	E	C
Kutno	E	E	E	D	C	E	F
Łomża	E	D	D	D	F	D	D
Ostrołęka	E	D	D	B	F	E	E
Ostrowiec Świętokrzyski	E	E	E	D	F	D	D
Pabianice	E	D	E	D	E	D	E
Przemysław	E	D	E	E	G	E	C
Racibórz	E	D	E	E	F	D	E
Radomsko	E	D	D	D	E	E	D
Rybnik	E	D	E	E	D	D	F
Siemianowice Śląskie	E	E	E	E	E	D	F
Sieradz	E	E	C	F	D	E	D
Skarżysko-Kamienna	E	F	G	F	D	E	B
Starogard Gdański	E	E	F	E	D	D	E
Suwałki	E	E	D	D	G	E	C
Świdnica	E	F	D	D	E	D	E
Tarnobrzeg	E	F	D	E	E	E	E
Tarnowskie Góry	E	F	E	F	E	D	D



City	Summary index	Market absorptive capacity	Labor market quality and social climate	Technical and business infrastructures	Accessibility	Transformation effectiveness	Tourist attractiveness
	1	2	3	4	5	6	7
Warsaw	A	A	A	A	A	A	A
Tczew	E	F	F	G	B	E	E
Tomaszów Maz.	E	E	F	F	D	E	D
Wałbrzych	E	F	E	E	F	D	D
Wrocław	E	D	E	E	D	E	D
Zabrze	E	D	F	F	D	D	E
Zgierz	E	E	D	D	D	D	F
Jastrzębie Zdr.	F	F	F	E	F	D	E
Legionowo	F	D	D	G	D	D	G
Mielec	F	F	E	F	G	E	E
Mysłowice	F	E	E	G	D	E	E
Piekary Śląskie	F	E	G	G	E	E	F
Ruda Śląska	F	D	F	G	D	E	F
Stalowa Wola	F	G	E	F	F	E	E
Starachowice	F	G	C	D	F	D	E
Świdnic	F	D	F	G	D	D	F
Wodzisław	F	G	F	E	F	E	F
Żory	F	F	D	F	D	D	G
Zawiercie	F	D	D	F	D	E	E

A - the highest attractiveness
 B - high attractiveness
 C - considerable attractiveness
 D - average attractiveness
 E - not big attractiveness
 F - low attractiveness
 G - very low attractiveness

The results of this survey confirm a thesis that the size of the city determines its attractiveness to a large extent. The bigger the city, the stronger assets it has that can attract an investor. Yet, not only the size is important but also its position in a settlement system.

Provinces' capitals do much better than other cities even of a similar size. The only city that is not a provincial capita and still managed to force its way in A and B classes is Gdynia.

The investment attractiveness increases when moving forward from east to west, although this dependency is not so strong.

In the ranking presented small cities like Kutno did much worse in comparison with big cities with over 500,000 citizens. Attractiveness indexes of small cities are naught when juxtaposed with big cities in one group.

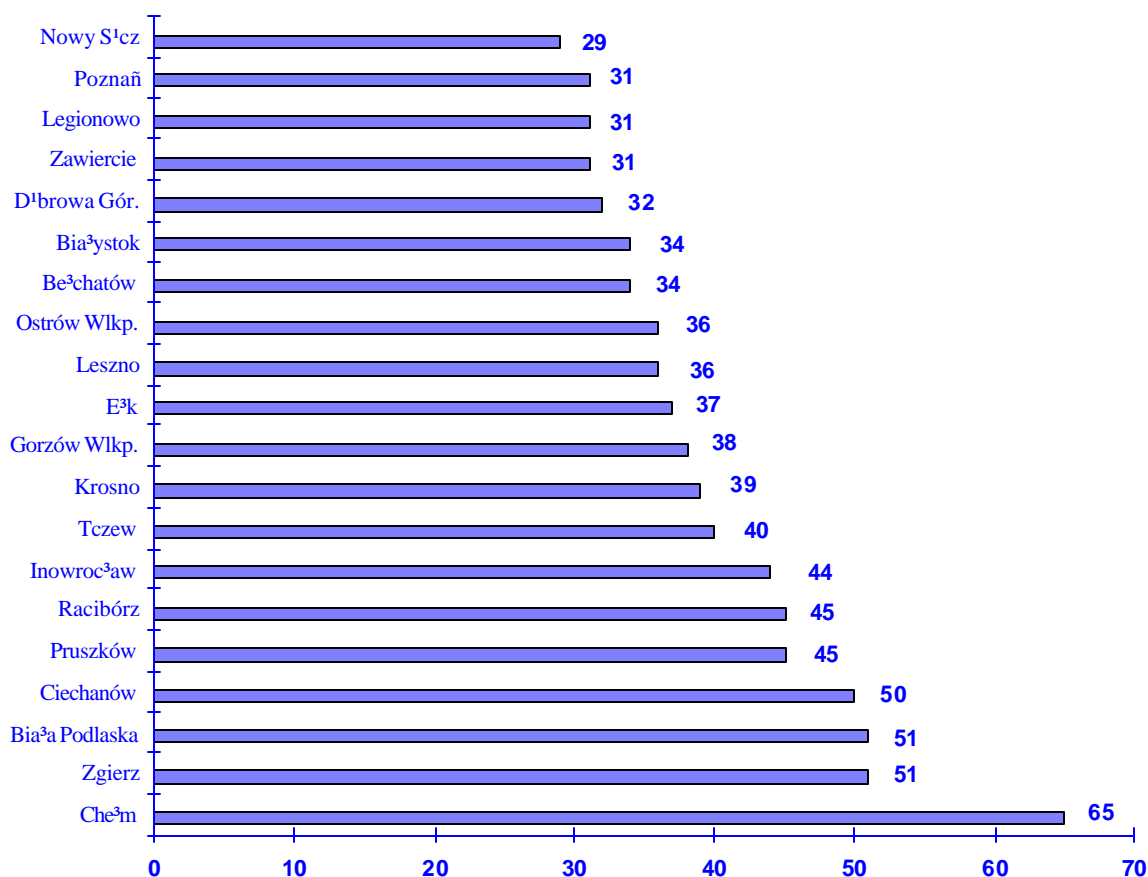
Being in F group does not give a considerable motivation to take efforts, if their result may only be a jump to E group or D group, at best.

Therefore, in reply to the presented ranking the Adam Smith Center developed a ranking of twenty cities with the highest percentage of capital expenditures. Chełm was best in the ranking as it has allocated 65 percent of budget outlays to investments, although it was included in E class in the IBGR (Research Institute for Market Economy) ranking. Poznań is the only city from A group that managed to join the group of the twenty biggest investors. Then there are Zgierz and Białą Podlaska which invest 51 percent of their budgets and were still included in E group of the IBGR ranking.

Diagram 4

Ranking of the Adam Smith Center. The first twenty cities - investors

Percent of investments in a city budget



The ranking presented by the Instytut Badań nad Gospodarką Rynkową (Research Institute for Market Economy) shows that Kutno is not a very attractive city for a potential investor. As far as market absorptive capacity is concerned Kutno received E, i.e., “not big attractiveness” mark. Yet, Kutno should not be compared to such big cities like: Warsaw, Łódź, Cracow, Poznań, because both economic activity and market size of Kutno are much smaller than in the cities well developed economically and an attempt of making a comparison deforms the results considerably.

Taking into account the cities of a similar number of inhabitants as Kutno (about 50,000): Starachowice, Stalowa Wola, Elk, Krosno, Ostrołęka, Tarnobrzeg and Legionowo their positions as far as the market absorptive capacity is concerned are below Kutno (e.g., Starachowice - very low attractiveness, Elk - low attractiveness).

The labor market quality and social climate are also unfavorable in Kutno - E grade (not big attractiveness). That results from the fact that Kutno lacks universities and academic centers which is very important if investors prefer to employ qualified staff (professionals). Despite a high unemployment rate and a big supply of workforce in Kutno investors can still

experience shortages resulting from an inadequate education of people offered by the Regional Labor Office in Kutno.

The technical infrastructure and business environment infrastructure of Kutno is estimated on an average level, while in some other comparable cities this situation proves to be much worse (e.g., Legionowo - very low attractiveness, Starogard Szczeciński - not big attractiveness). That means that the local authorities of Kutno support the development of business and create much more adequate conditions for investors than other cities do.

Kutno received a very good grade regarding accessibility - considerable attractiveness. That is the result of Kutno central position and the rail junction in the city as well as a connection to east - west routes. That makes Kutno a very convenient location for investments with no problem of getting there by use of any means of transport. This location creates very favorable conditions for cargo transport, dispatching and handling.

The transformation effectiveness and tourist attractiveness are the factors that received very few points. Transformation is, first of all, related to privatization progress and the location of big enterprises, which is not a big asset of this region.

In spite of the fact that the majority of smaller cities were compared in the ranking of the investment attractiveness to big cities (and there they occupy last position), the ranking prepared by the Adam Smith Center shows investment activity of the cities. The first place on the list of the cities with the highest per cent of budget capital engaged is taken by Chełm (65 percent), next places are taken by Zgierz (51 percent) and Białka Podlaska (51 percent). Many cities of the population number similar to Kutno take considerable places in this ranking (Białka Podlaska, Ełk, Krosno, Legionowo), while the same cities took almost last places in the ranking prepared by IBGR (Research Institute for Market Economy).

Kutno was not taken into consideration on the list of the highest investment numbers. As far as indebtedness is concerned, Kutno is in the fourth place, 107.76 zloty per one inhabitant. The first place is taken by Warsaw where the indebtedness level per one inhabitant is 138.70 zloty.

The IBRG ranking presents investment attractiveness of the cities while the Adam Smith Center shows city investment attractiveness based on budget outlays.

Łódź deserves attention with the highest possible rate of financial credibility received from Standard & Poor's on 30 June 1997. Thanks to that rate Łódź joined a small group of the East European cities. Prague was the first one to receive it three years ago and was later joined by Ostrava, Bratislava, Moscow, St. Petersburg and Riga.

An international rate of credit credibility is needed by the cities, so that they can place their bonds on West European markets. Łódź also needs the rating to be able, in the first half of next year, to issue long term eurobonds of the value of about 120 million zloty and the maturity up to 20 years.

When preparing the rating for Łódź Standard & Poor's looked especially close at gmina finances. According to the Agency the city closeness to the planned junction of two big superhighways and a special economic zone established recently are important assets of the city.

AGRICULTURE

Agriculture plays an important economic role in Kutno region. The agricultural land of the region makes up 74 percent (including 84.8 percent of arable land) with which the Province comes in second in the country. Soil is of high quality and has a quality class index between 1.0 and 1.17 making a complex of soils for growing wheat, beet and vegetables.

Table 24
Soil Quality Structure in Płock Province

Soil type	Class	Percent
Heavy soil	classes I, II, III	39
Medium-heavy soil	class IV	35
Light soil	classes V, VI	26

Source: Analiza i koncepcja przedsięwzięć inwestycyjnych w zakresie eksportu warzyw i ich przetworów w regionie kutnowskim 1997 rok. (Analysis and conception of investment projects related to vegetables and vegetable processed products export from Kutno region, 1997)

Climate conditions in that are diverse and an average growing season lasts 210 days.

Crop Structure

Total agricultural land in the Province covers 395,000 hectares including 335,000 hectares of arable land. In the crop structure individual cultures cover as follows:

- cereals - 64.4 percent
- potatoes - 11.8 percent
- sugar beets - 6.4 percent
- vegetables - 3.7 percent

Table 25
Crop Area in Płock Province (in hectares)

Field crops	1994	1995	By:		
			State-owned farms	Agricultural cooperatives	Individual farms
<i>Total</i>	<i>317,067</i>	<i>332,662</i>	<i>3,027</i>	<i>5,457</i>	<i>321,017</i>
Cereals ^a	205,347	214,022	1,683	4,393	206,202
Leguminous	3,021	2,972	54	168	2,624
Potatoes	37,031	37,368	43	93	37,183
Sugar beets	20,413	19,300	105	48	19,147
Oily	4,448	10,358	461	448	8,699
Fiber	126	293	—	—	290
Other industrial	899	225	—	—	225
Fodder	26,158	25,277	406	92	24,438
Other crops ^b	19,624	22,847	275	215	22,209

Notes

^a Including corn grown for grain

^b Strawberry vegetables, crops for green manures, grass and papilionaceous plants for seeds

Source: Rocznik statystyczny woj. płockiego 1996 r. (Statistical yearbook of Płock Province, 1996)

The regionalization of individual cultures is closely connected with soil quality. In the central part of the Province sugar beets make up a big item in the crop structure - 21,000 hectares and rape - 3,400 hectares. Wheat covers the area of 60,500 hectares and is concentrated mainly in the following regions: Płock - Drobin, Bielsk, Radzanowo, Bulkowo, Bodzanów Communes and Kutno - Kutno, Strzelce, Oporów, Krońniewice, Bedlno Communes.

Rye covers 30 percent of the crop structure with the crop of about 145,000 tons. There is the highest concentration of rye in the regions of the lightest soils of the Province, i.e., in Sierpec region - Szczutowo, Rońciszewo, Sierpc Communes and Gostynin - Gostynin, Szczawin, Ociek, Duninów Communes.

Potatoes cover 41,000 hectares of the Province with annual crops on the level of 800,000 tons. The highest concentration of this culture is in the northern part of the Province in the Communes of Szczutowo, Sierpc, Gozdowo.

Horticulture and Vegetable Growing

Total fruit and vegetables grown in Płock Province cover 14,187 hectares. Kutno and Opatów region is a vegetable basin because there are best soil quality classes of 1.0 -1.7. For example in Góra Dzw. Małgorzaty Commune vegetables cover 1,971 hectares which makes up 21 percent of total vegetable area in the Province. On the other hand, onion culture covers the biggest part of vegetable acreage - 3,120 hectares. Strawberries cover 2,340 hectares of land in the Province with an annual production on the level of 8,700 tons of raw material. Strawberry basin includes the Communes of Głubin, Słubice, Łódź, Sanniki and Wyszogród. Moreover, Czerwińsk Commune is the region of 400 hectares of raspberry crops.

1995 recorded production in the region of Płock Province was 273,000 tons of vegetables and almost 41,000 tons of fruit. It must be pointed out here that a very big part of trade turnover of those products is done on a private market that cannot be defined accurately. There are two integrated fruit production (IFP) centers in Wisowa and Kutno. A group of fruit-farmers gathered in Wisowa, Łódź Commune, has been acting since 1992. Orchards are situated in Płock and Skierniewice Provinces. Kutno center was organized in 1994. Both groups associate 29 members possessing 331.8 hectares of orchards.

Cattle and Pig Raising

In majority farms are multidirectional. Beside cereal, vegetable and fruit growing they raise cattle and pigs. Cattle stock depends on fodder stock.

The share of fodder crop area in total agricultural land structure is about 25 percent. The biggest fodder areas are found in the Communes of Góra Dzw. Małgorzaty, Rońciszewo, Szczutowo, Opatów. Piątek Commune is an exception as it has a big area of permanent grass-land which, yet, in 95 percent requires the regulation of water conditions.

Two most important regions of the highest cattle production can be distinguished in the Province:

- Northern region - Communes of Szczutowo, Rońciszewo, Drobin, Gozdowo, Sierpc, Mochowo
- Southern region - Communes of Piątek, Krzyżanów, Witonia, Ożarów, Daszyna, Krośnice, Nowe Ostrowy, Bedlno.

About 80 percent of farms breed cows including 50 percent of farms that have 1 - 3 cows and only 2 percent of farms with more than 10 cows. The basic breed is black and white lowland cow and black and white cow with addition Holstein-Phrygian blood.

Cattle stock amounts to 167,000 including 53 percent of cows. There are 41.9 cattle per 100 hectares of agricultural land (country total - 41) including 23.6 percent of cows (country total - 21.4 percent). Due to low profitability of milk production cow stock decreased considerably in comparison to the 1980s. There is a low yield from one cow and despite the fact that there are herds producing 6,000 - 7,000 liters per cow per year an average yield from one cow in the Province is estimated as 3,100 liters. The amount of milk supplied in 1993 was 199.1 million liters. The production of slaughter cattle is estimated as about 25,000 tons.

The production of slaughter pigs concentrates mainly in Sierpc region and in the north-eastern part of the Province covering the Communes of Sierpc, Szczutowo, Gozdowo, Radzanowo, Bulkowo, Bodzanów and Supnó. Recently the dispersion of this type of agricultural production has been observed in the whole Province.

78.5 percent of farms breed pigs. Most farms - 67 percent - have 10 - 50 pigs and the total pig stock in the Province is 450,000 pigs with a growing tendency. There are 117.6 pigs per 100 hectares of agricultural land (country total - 101.2) which gives Province the 11th place in the country.

Two breeds prevail in pig stock: big Polish white pig and Polish white ear-pendent pig. Mixtures of these breeds with Duroc and Pietrain breeds become more and more popular. An annual production of slaughter pigs is about 70,000 tons.

Sheep-Breeding

Sheep-breeding is a supplementary direction of animal production. Sheep-breeding is dispersed and the areas with its highest concentration are the Communes of Mała Wień, Wyszogród and Starońby. Sheep stock is 12,000 and tends to decrease. The production of sheep focuses, first of all, on breeding lambs for export.

INDUSTRY

Kutno region is diverse as far as the existing industry is concerned. Key industries that prevail in the local countryside are as follows:

- ! Agricultural and food industry (“Aronia”, “Agros”, “Union Chocolate”)
- ! Pharmaceutical industry - production of drugs, vitamins, formulas for athletes, vibovit (a vitamin drink for children), infusion liquids and additives increasing nutritive values of fodder for animals (“Polfa” S.A)
- ! Electronic industry - capacitors, interference eliminators, pulse transformers, high voltage multipliers (ZPR “Miflex” S.A.)
- ! Machine industry - agricultural machine production and spare parts for agricultural machines (“Rolmasz”, “Danagri Pol”, “Agroma”)
- ! Metallurgical industry - production of iron and non-ferrous castings (“Centrozap Sp. z o.o.”)
- ! Machine and electrical engineering industry (“Emit” S.A.)
- ! Electrical industry (“Elgo”)

Agricultural and food processing has reached a considerable progress in the system transformation process. The market offer of food processing has been updated, the range of products has been widened, their attractiveness has improved. Processing structure has changed, as well, internal competition and local processing have developed. The share of the private sector in processing is estimated as 50 percent.

Processing capacity of the agricultural and food industry differs in regard to the output and the possibilities of raw material supplies. The biggest shortages of production capacity are experienced by potato processing industry and fruit and vegetable processing industry. Limited production capacity especially of the potato processing industry creates the problem of the management of raw material manufactured surpluses.

The majority of agricultural and food processing entities have unsatisfactory building, machinery and equipment technical conditions. It has a material influence on production quality. Production potential of the agricultural and food industry in Płock Province looks as follows.

Fruit and Vegetable Industry

The production of fruit and vegetables in Płock Province is on a high level, yet the present processing capacity of fruit and vegetable processing plants allow to manage only 15 percent of crops. In majority, purchases of fruit and vegetables are carried out through private companies or individuals from outside of our Province.

Among the biggest processing plants are:

- Aronia S.A. in Płońsk
- Vitamix in Malew
- RSP Koszelew, Gmina Commune
- Mazowsze in Płońsk
- Las in Duninów
- Zamrażalnia sp. z o.o. in Płock

Potato Processing Industry

15 private alcohol distilleries. The period of transition to the market economy enabled the change of distilleries owners who are private individuals or companies that lease farms formerly belonging to state-owned farms (PGRs). Potato processing in Płock Province takes place only in alcohol distilleries which process about 5 percent of the raw material. About 18 percent of the total potato crop is supplied and as much as 60 percent of this amount is managed by other Provinces. An abundant raw material base and very low processing capabilities indicate the necessity for potato processing development.

Sugar Industry

Sugar beet culture area covers 21,000 with the crop of about 700,000 tons. Producers supply to sugar-plants of Borowiczki, Mława and to other plants close to Kutno, namely Dobrzelin and Nowe Ostrowy and also to three sugar-plants in neighboring Provinces: Głinojeck, Leżniew and Guzów. The production capacities of the sugar-plants satisfy the demand of the Province to full extent, yet, despite high processing capacities, a common characteristic of all the sugar-plants is a high wear and tear of fixed assets. The amount of sugar produced there makes up 5 percent of the total country production.

Grain Processing and Flour-Milling Industry

During the system transformation period the owners of farm flour-mills changed and now the flour-mills are private properties. Storing facilities of the Province are absolutely sufficient for the stock of grain processing and flour-milling industry.

There are 41 flour-mills private-owned in Płock Province. Their milling capacities are estimated for about 470 tons per day.

Among the biggest fodder and fodder additives manufactures are:

- Cargill Pasze S.A. of Sierpc
- Gold Hellen - plants in Płock and Łódź
- Ekspasz Kutno
- Polfa Kutno

Dairy Industry

Milk is purchased and processed by 6 dairy co-operatives: Kutno, Sierpc, Łochów, Topola Królewska, Sanniki and Krośnice and also two private companies - "Mitex" Warsaw, branch in Płock and "Eco-Milk" in Kamionki. Milk is purchased from the total number of 19,349 suppliers including 6 state-owned farms. The processing capacity of those companies exceed the possibility of raw material acquisition.

A product range has been extended by the introduction of new milk products from private companies on the market. A raw material quality is rather good, 85.4 percent is class I. The range of products is extended more and more often, yet the majority of companies produce low-processed products such as milk, cottage cheese, cream and butter.

Meat Industry

Meat processing plants of Płock Province have a rather modern production base, the use of which can be regarded as unsatisfactory. The use of the production capacity is estimated as 50 percent regarding pig slaughter, 30 percent regarding cattle slaughter, 60 percent regarding processing and 70 percent canned meat production.

The reasons of an insufficient capacity use should be sought in limited possibilities of supply to the local market and outside the Province. The Province has the overproduction of pigs in comparison to its needs and is self-sufficient as regards the production of slaughter cattle.

10 companies representing this industry can be listed as those that slaughter and process not less than 5 tons per day. They are as follows:

- Zakłady Mięsne in Płock - state-owned enterprise
- "Olewnik" of Dzwierzyn, Drobin Commune
- "Mięsopol" of Sierpc - Employees' partnership
- "Koniarek" - Kozia Góra, Strzelce Commune
- "Starex" of Płock

- “Instar” of Gostynin
- “Carpexim” of Gilin, Bielsk Commune
- “Peklimar” of Umienin, Bielsk Commune
- “Borek” of Lelice, Gozdowo Commune
- “Polandia” of Małków next to Płock

Poultry Industry

Poultry breeding is also well developed in Płock Province. The production of slaughter poultry makes up a considerable item, i.e., 17 percent of the total production. Annual poultry production is over 20,000 tons. At present, there are 206 producers of poultry including:

- ! 24 production farms with the annual production of 1,490,000 goose hatching eggs, 100,000 duck hatching eggs and 520,000 general purpose eggs.
- ! 182 poultry farms with the annual production of:
 - 19.477 tons of slaughter broilers
 - 850 tons of slaughter geese
 - 190 tons of slaughter turkeys
 - 889 tons of slaughter animals for general purposes
- ! Total: 21,406 tons of slaughter poultry.

Farmers from the areas close to Płock, Sierpc and Gostynin specialize in poultry production. Shares in a poultry production sector are as follows:

- Individual farmers - 16,438 tons
- Production co-operatives - 541 tons

What concerns poultry production a raw material base is closely correlated by industry. In Płock Province this industry satisfies the demand of the local market more than sufficiently and it delivers a considerable part of the products to other regions in the country.

There are two big plants that cover about 60 - 70 percent of the poultry meat production and almost 100 percent of the processed meat production. These are: Płockie Zakłady Drobiarskie “Sadrob” S.A. and Kutnowskie Zakłady Drobiarskie “Exdrob” S.A. The latter also produces meat of poultry waterfowls periodically. There are also small private companies that, first of all, offer poultry meat and giblets. The production structure of poultry production plants evolves quickly widening offers of sausages and smoked meat products, ready-to-cook products at the expense of meat.

Machine-Building Industry

It is worth noticing that the region described has also a full base for agricultural production both as regards farm equipment and means of agricultural production.

The following companies belong to the biggest manufacturers and distributors of farm equipment and spare parts:

- “Bizon” sp. z o.o. in Płock - Bizon harvesters, straw tearing machines, adapters to corn harvests, coulter dispensers, meadow mowers
- “Agromet FMZ” in Płock - swath pick-ups, forage harvesters
- PPHU “Rolmasz” in Kutno - seeders, fertilizer distributors, fodder mixtures, equipment for potato beetle pick-up
- “Danagri Pol” sp. z o.o. in Kutno - licensed Hassia seeders, cultivation units, single-seed drills
- “O”czyckie Zakłady Górnicze (“O”czyca Mining Factory - planters, cultivators, sorting machines
- Państwowy Ośrodek Maszynowy (State-owned Machine Center) in “O”czyca - production of machines and equipment for nursery and horticultural growing
- PP “Instal” in Sępólno - planters for potatoes, ridging ploughs
- “Stal Mech” in Płock - spraying machines
- Zakład Obsługi Technicznej Przemysłu Rolno - Przetwórczego (Technical Service Factory for Agro-Processing Industry) in Bielsk - machines for meat industry, smoke chambers, vacuum mixing machines, feeding automatic machines
- PHSR “Agroma” in Kutno - distribution of spare parts to farm machines

FOREIGN INVESTMENTS IN KUTNO REGION

By the end of 1994 73 joint-ventures and 7 foreign manufacturers of small products had been registered in Płock Province. Limited liability companies are predominant in the total number of companies (about 98.6 percent) and joint-stock companies make up only 1.4 percent.

Foreign investors come from 18 countries. A considerable number of companies run various economic activities. Commerce has a predominant position included in the activities of almost 27 percent of entities.

Breakdown of industries in which the biggest companies operate is as follows:

— Commerce	-21 enterprises
— Building industry	-12 enterprises
— Agriculture and food industry	-8 enterprises
— Clothing and textile industry	-6 enterprises
— Machine-building and metal industry	-5 enterprises
— Chemical industry	-5 enterprises
— Transport industry	-4 enterprises
— Electrical and precision industry	-2 enterprises
— Tourism	-2 enterprises
— Fodder industry and recycling	-2 enterprises
— Furniture and joinery industry	-1 enterprise
— Other industries	-12 enterprises

The majority of foreign investors organize small ventures with a capital of about a few dozen thousand of US dollars. A most numerous group has been formed by German investors, yet, as far as capital contributed is concerned, U.S. and Dutch investors are biggest.

Table 26
Number of Enterprises Established by Country of Origin of a Foreign Investor and the Value of Equity Capital

Ref.	Country of origin of a foreign investor	Number of foreign investments	Including: joint-venture companies	Share capital of joint-venture companies (US\$)
1	USA	5	5	1,823,295
2	Holland	5	5	805,424
3	United Kingdom	4	4	629,752
4	Italy	7	7	441,198
5	Denmark	4	4	321,992
6	Germany	22	20	236,091
7	USA - Germany	1	1	98,140
8	France	5	4	88,016
9	Austria	6	4	84,132
10	Sweden	2	2	29,917
11	Ukraine	3	3	20,248
12	Slovakia	2	2	8,264
13	Russia	5	5	8,264
14	Lithuania	3	3	5,165
15	Australia	1	1	4,132
16	Vietnam	1	1	1,860
17	Monaco	1	1	1,653
18	Belgium	1	1	1,653

Total equity capital of joint-ventures was almost US\$ 4.6 million (111,508,000 zloty). While capital expenditures borne by joint-ventures until the end of 1994 amounted to US\$ 25 million.

The biggest companies in respect of capital invested are: Levi Strauss Poland in Płock, Nijhof- Wassink in Kutno, Cargill Pasze in Sierpc.

Levi Strauss Poland (100 percent of U.S. capital) started up a clothing plant in 1992. The production and distribution of denim clothes is its main business. It employs 700 staff. Every week 40,000 pairs of denim trousers are produced for the domestic market and also for export. Capital expenditures reached almost US\$ 10 million.

Cargill Pasze SA in Sierpc is an American-Polish fodder company (The Polish government is a stockholder in about 9 percent). Its production capacity of 100 tons of fodder per year is comparable to 10 biggest manufacturers of that type in the U.S. It has its own laboratory. 60 percent of product range are feeding stuffs for poultry, 35 percent for pigs, 5 percent other. The company employs 50 employees. Capital expenditures incurred have reached about US\$ 4 million.

The following companies have a considerable influence on the local investment and labor market:

- “Wempe”, a German enterprise, in Korze $\frac{1}{2}$, Płock Commune - production of clothes, staff of 324
- “Inwestbau”, an Austrian enterprise, in Płock - building services, staff of 128;
- “Torex”, a German company, in Janowice, Piasek Commune - production of building materials and wooden fancy goods, staff of 154;
- “Pol-Swec”, a Swedish-Polish, company in Płock - bread and confectionery production, staff of 50.

The total number of staff employed by foreign companies located in Płock Province in 1994 was about 2000.

The following companies with foreign capital are located in Kutno:

- ! Nijhof-Wassink Sp. z o.o. (Ltd. company) established in 1990 as a joint-venture with Dutch capital. It is one of the first foreign investments in Płock Province and the first one in Kutno region. First of all, its business is both international and local road transport of dry and loose products in silo-trailers. It also performs repairs of transport equipment and sells and leases VOLVO trucks and truck-tractors. It is an authorized VOLVO TRUCK CORPORATION dealer in central Poland. At present the company has a modern repair shop and transport base located directly at E-30 road. The company employs 73 people.

- ! Schomburg Polska has been present on the Polish market since 1992. It offers modern German and Polish materials of building chemistry. Its products are characterized with high technical and environmental parameters. The company employs about 50 people.
- ! Danagri Pol, a company with Danish capital, included in Cormall Group. Its business activity is the production of seeders and other farm machines. It employs about 60 people.
- ! Sobiesław Zasada - Fischer - a company with German capital, bicycle assembling plant.
- ! BASF - manufacturer of pre-mixes - animal nutrients - which has invested in Kutno region by acquiring Polfa premises.

Moreover, a special achievement related to foreign investments in Kutno and creating good opportunities for the next investors is building of a sports-complex with facilities for baseball and softball games. The value of this investment is US\$ 6 million.

The above presented companies are, at present, the biggest investors with foreign capital that are located in Skłoczek, the industrial district of Kutno.

SUMMARY

In the city ranking related to investment attractiveness, carried out by Instytut Badań nad Gospodarką i Rynek (Research Institute for Market Economy) Kutno was classified in E class (the group range from A - high attractiveness to G - low attractiveness).

In this ranking smaller cities like Kutno were juxtaposed with big cities like Warsaw, Poznań. It is not the best juxtaposition, since it is obvious that the investment structure is different in small and big cities. The indexes of attractiveness of smaller cities go down to naught, if juxtaposed with big cities in one group.

Talking about attractiveness "in general" is extremely difficult and must include simplifications. What can attract an investor from one industry can deter an investor from another field. Therefore, the results presented by IBGR (Research Institute for Market Economy) must be treated as a certain average that not necessarily shows precisely the situation as perceived from the point of view of different industries.

The ranking prepared by the Adam Smith Center reflects city investment engagement. In that case different categories of investment attractiveness were taken into account, i.e., a per cent ratio of capital outlays in a city budget.

Many smaller cities of Kutno size and population number took considerable places although IBGR classified them almost as the last ones.

Thanks to its central position in Poland, the location of the biggest rail junction as well as an international A-2 road cutting through the region and linking the east with the west Kutno is rated high as far as accessibility is concerned.

39 percent of Kutno region is covered by good-quality soil that is favorable to growing vegetables and potatoes. They do dominate in the region making up a vegetable basin.

Beside a raw material potential the region can offer high supply of workforce (including a high percentage of a hidden unemployment in villages). A workforce structure is also favorable as it mainly consists of young people between 18 and 35 years old (58.7 percent of the total unemployed).

Attention should also be drawn to foreign investments located in Kutno region. The majority of foreign investors organize small ventures with the capital of a few dozen thousand US dollars.

German investors are most numerous, yet, as far as capital contributed is concerned, USA and Holland are important.

CHAPTER 5

PRESENTATION OF THE KUTNO AGRO-INDUSTRIAL PARK

PURPOSES OF THE KAIP ESTABLISHING

- ! To establish various companies that may generate new jobs for the residents of the region and enable them to retrain and obtain a new attractive job.
- ! To develop enterprises existing in the region and attract investments from outside including from abroad which will cause the inflow of new technologies and management methods.
- ! To attract new industries to the region.
- ! To support agricultural and food-processing industry for which an excellent base and sources of raw materials exist in Kutno region.
- ! To increase export possibilities of the region.
- ! To manage free land.
- ! To prevent an excessive outflow of the capital from the region.
- ! To ensure more effective and faster funds turnover.
- ! To attract workforce potential outflowing from the region (young people mainly).
- ! To develop companies that support and provide services to business.

DESCRIPTION OF THE KUTNO AGRO-INDUSTRIAL PARK (AREA, OBJECTIVES) - LOCATION

The presentation of the Kutno Agro-Industrial Park is based on a KAIP conception included in a study "Kutnowski Park Agro-Przemysłowy" developed by Agencja Rozwoju Regionu Kutnowskiego S.A. (Kutno Region Development Agency, Joint-Stock Company) in June 1997 and in the materials of the Architecture and Town-Planning Department of Kutno City Authorities - "Plan Analysis".

The Kutno Agro-Industrial Park is located in the eastern part of Kutno, Skł"czki industrial district. According to a local city development plan approved in a city council resolution No. 450/XLVII/94 of 26 May 1994 this area covers the following function zones.

D^a - Areas of Technical Buildings and Facilities

Dominant function	Areas of technical service buildings and facilities for the city
Accepted functions	Production and service facilities, parking lots and garage complexes
Forbidden functions	Residential, educational, recreational areas and other protected functions

Note:

^a Plan Ogólny Miejsowy Zagospodarowania Przestrzennego - załącznik nr 3

E - Production, Wholesale and Transport Areas

Dominant function	Industrial areas, bases and warehouses, railway facilities and areas and agricultural service areas
Accepted functions	Transport and administration buildings and facilities, burdensome crafts
Forbidden functions	Residential areas and other protected functions

H - Offered Areas - Production, Wholesale and Transport Areas

Dominant function	Facilities for production, wholesale, transport, processing and distribution
Accepted functions	Hotels and restaurants and other not specified under forbidden functions
Forbidden functions	Residential housing and other protected functions
Other arrangements	Parking lot program for new facilities carried out within their boundaries

G - Open Agro-Environmental Areas

Dominant function	Open city ventilation areas, i.e., the Ochnia River valley and watercourses connected with it, grounds and facilities for various forms of recreation for the city, farm areas, meadows and pastures
Accepted functions	Single residential houses and service units connected with the dominant function located on selected plots of building areas up to 100 sqm and 2-storey high and garden plots. River regulation in the city center and to the west of the city center is accepted. Moreover, forestry planting of low quality class grounds and wasteland, provided the air flow along the river valley is not limited
Forbidden functions	Location of structures that hinder air flow or deteriorate water conditions

Industrial and distribution and logistics investments have been planned in the southern part of the Park. On the other hand, investments connected with food processing industry have been planned in the northern part on either side of the national A-2 road.

The national A-2 road goes directly across the KAIP area and together with an internal road network and the main Metalowa Street they ensure an access to the Park. Also a railway Poznań - Warsaw main line (with numerous sidings) crosses Skłoczki.

The planned North-South superhighway is to be situated close to Skłoczki district.

The Kutno Agro-Industrial Park has an access to the following technical supplies: water, sewage collection, gas, electricity, city heat system, telecommunication services.

Infrastructure - Possibilities and Limitations

Deep water intakes

There are 2 deep water intakes in Skłoczki district that have been accepted in B category by the Chief Geologist of Poland:

- Well No. 1 - 344 m³/h
- Well No. 2 - 344 m³/h
- Total: 688 m³/h

A complete technical infrastructure, i.e., sanitary sewer, rain-water drain, power must be connected to the water intake (water treatment station).

The following water mains must go out of the station:

- Towards Metalowa street - connection with an existing ϕ 500 main
- Towards Skłoczowska Street and the crossing of Szymanowski Street and Szpitalna street

Every well must have two-sided power supply, part of them (at least two) must be supplied in special conditions from current-generating units on the intake or from the units located on the wells with a control coupled.

Buffer zones are obligatory around the deep wells that limit land development:

- A - direct buffer zone of 15 - 20 meters, it is a ground enclosed with a fence with a collision-free access ensured
- B - indirect buffer zone with its size depending on water and ground conditions in a given area and the method of its development depending on an investment

Due to a planned building of water intake in Skł" czki it is necessary to ensure a strip of ground to enable:

- The connection of the complete technical infrastructure to the water intake and deep wells
- The improvement of water mains network

Wastewater and Solid Waste

A combined wastewater treatment plant has been located in Skł" czki district. Sanitary sewage is collected and discharged to it by a collecting pipe and its capacity is - 20,000 cubic meters per day. It is a mechanical and biological treatment plant using BIOOXYBLOK technology.

Solid wastes are, on the other hand, collected and transported to Krzyóanów landfill. Actions focused on the implementation of waste segregation and recycling have been carried out for a few years now. Waste incineration has also been considered. Such analyses have been carried out all over the region and they project a comprehensive waste management.

Gas pipeline

An industrial high pressure gas pipeline crosses the area of the Kutno Agro-Industrial Park from north to south. Its route goes from Óód'i through Ozorków, Ó" czyca, Kutno, Strzelce to Gostynin. Its diameter is DN 400 and the pressure is 6.3 MPa and it is set 1.3 to 2.0 meters below the surface. The total target length of a gas grid is about 100 kilometers of various diameter gas pipelines. The total length of gas connections is about 143 kilometers.

The high pressure gas pipeline causes the following limitations in land management:

- A distance between industrial plant buildings counted from the site border and the pipeline should be 50 meters
- The distance of parking lots to the gas pipeline area border should be 30 meters
- A protecting tube must be used on the gas pipeline where it crosses roads
- The angle of gas pipeline crossing roads should not be less than 60 grades

Therefore, along the whole route of the gas pipeline there is a strip 100 meters wide excluded from any kind of development.

Mazowieckie Okr" gowe Zakłady Gazownictwa (Mazowsze District Gas Plants) have undertaken to build a first-degree reduction station in the Kutno Agro-Industrial Park, provided a permanent receiver of gas appears, where the gas pressure will be reduced from 6,3 MPa to 4 MPa and then sent to the receiver by a medium-pressure pipeline.

A site needed for the reduction station is a 30.0 x 30.0 meters plot with an access, situated 50 meters away from the high-pressure gas pipeline.

Power

The Kutno Agro-Industrial Park will be supplied with power from a 110/15 kV transformer and distribution station, a so called GPZ Skł" czki. It was built in the 1970s and modernized in 1994. Four SN 15 kV buses go out of it towards the city, yet it is not possible to connect to them. However, new outlets are possible.

Skł" czki is, beside existing plants, loosely developed and thus new power outlets are possible. The development of distribution networks will depend on sizes and types of enterprises that could be located in this area. Existing power lines cause limitations related to areas that can be developed.

The impact zone of the overhead 110 kV high-voltage lines - 2 x 19,0 meters.

The limitations regarding the development and building in the vicinity of power lines and facilities are individually defined and approved by Zakł"ad Energetyczny Płock - Rejon Energetyczny Kutno (Płock Power Distribution Plant - Kutno Power Region).

Heat Energy

Heat distribution network for central heating is located in the northern and eastern part of the city. Network capacity has big reserves allowing the connection of new receivers. At present about 30.3 kilometers of traditionally made network, i.e., in ducts, and 2.3 kilometers of insulated network are in operation.

Telecommunication

The city has 5 phone exchanges of the capacity of 12,318 numbers. 9,348 private numbers and 983 company numbers and 432 other numbers are connected to the exchanges.

There are automatic connections with the whole world. The ratio is 212 subscribers per 1,000 residents and it is higher than the average of the cities of Płock Province and in Poland.

Beside TP S.A. (Polish Telecommunication) a new operator - Elektrim TV-Tel - has appeared on the local market and it offers the same services. The company has a modern exchange with a total capacity up to 30,000 numbers. At present 500 subscribers have been connected to this exchange.

Two operators present on the local market will force the improvement of services and the broadening of the range of services offered. It is possible to connect to the worldwide INTERNET in the city.

The Malinka Stream

The Malinka Stream crosses the Kutno Agro-Industrial Park and certain investment limitations must be followed along its course.

The land management in the zone adjacent to the Malinka Stream requires approvals from the Rejonowy Zarząd Melioracji i Urządzeń Wodnych of Kutno (Regional Land Melioration and Water facilities Administration) and from the Environmental Protection Department of the Governors' Office of Płock.

Conceptions of General Capital Investment Principles

Plot development. Building space should not exceed 20 - 35 percent of the plot area with a maximum density of about 2500 square meters per ha and limiting building height to 2 storeys.

Building design and materials. Design quality and high quality materials used have a decisive meaning in adjusting to existing structures and a surrounding landscape. Materials accepted include face bricks and glass façades and roofings of ceramic tiles or roof slates.

Parking lots. The best solution is to ensure minimum one parking place per 23 square meters of building space including service and spare parts.

Layout of the ground. Every capital investment must include, as early as at the stage of a technical design, a high standard layout of the ground in compliance with guidelines accepted for the existing landscape.

Conceptions of Industrial Investment Principles

Plot development. Building space should not exceed 35 percent of the plot area (with individual deviations). Offices and administration space should be situated at the front side that is to be parallel to internal Park roads.

Building design and materials. Typical buildings are to be structured on steel frames with concrete floors. Front façades are to be brick or panel systems and in certain conditions colored sheet metal with brick elements. Roofings should be made of steel sheets.

Parking lots and service areas. Parking lots are to be made of sett and provide one place per 46 square meters of building usable space. Service areas are to be situated at the back or sides of buildings and covered.

Layout of the ground. An additional layout of the ground will be required as a part of any design which details will be considered with every application.

Signs. Style, location and number of information signs will have to be approved by the Park Management.

Transport. An access to the city is guaranteed by a road system open for general use. There are bus and train stops in the Park. There are numerous connections to Warsaw, Poznań and Łódź. An international airport in Warsaw is 125 kilometers away.

Conditions for Locating in the Kutno Agro-industrial Park

Ground Acquisition

Municipal authorities are the owner of the ground for KAIP investments. Plots in the Park can be acquired after the period of building has elapsed for which long-term lease agreements are concluded.

The owner is entitled to a free choice of offers. The KAIP grounds can be given under long-term leases for 99 years. Charges related to acquiring a long-term lease will be paid by installments. First installment of 25 percent of the price received through a bid will be payable before a notarial agreement is concluded. Annuities of 3 percent of that price will be payable until 31 March every year starting the next year after the year of concluding the notarial agreement. The amount of annuities can be changed due to the changes of ground prices.

For KAIP investors a time for commencing and finishing building will be set as three years from the date of the notarial agreement.

Should the conditions of the agreement not be kept, long-term lease will be terminated and damages of 1/4 of capital expenditures incurred will be paid.

The Use of Ground

Charges for the management of Park common areas will be payable. There may also be charges for providing security of buildings to the residents of the Park.

Purchasers/ leaseholders of the properties will also be charged for legal activities.

COMPETITION FOR THE KAIP

Special economic zones as well as properties belonging to Kutno Municipality, individuals and companies under liquidation can be a potential competition for the KAIP.

Special Economic Zones

The idea of establishing special economic zones was implemented in Poland in 1994, when the capital expenditures were low (especially in industry) and the inflow of foreign capital rather small. Thus, weaker regions and centers had low chances of getting investments which due to a labor market, among other things, they needed most.

Special economic zones are one of the instruments of performing regional policy of the country. Their goal is to speed up the development of specific areas by creating a whole incentive system for investments in specific industries and creating new jobs.

An economic zone can be an area that is suitable for running businesses conducive to:

- The development of an existing industrial potential and infrastructure as well as natural resources not used so far
- The creating of new jobs
- The increase of competitiveness of products manufactured and services offered
- The development of export

The establishing of the economic zones is indispensable in the regions which at the same time need:

- To speed up an industrial restructuring process
- To compensate for the difficulties to the investors resulting from unfavorable geographical location and infrastructure shortages

Special economic zones should not be established in the regions which, due to a geographical location, existing infrastructure, economic wealth and without privileges connected with the zones, have clear development attributes. Those are the Municipalities and Provinces of the western part of Poland with a natural asset of their closeness to the EU border.

The existing zones are as follows:

- ! Mielec Euro-Park Special Economic Zone, managed by Agencja Rozwoju Przemysłu S.A. (Agency for Industry Development) located in Warsaw.
- ! Katowice Special Economic Zone, managed by a joint-stock company under the same name located in Katowice and operating through sub-zones of:
 - Jastrzębie-Zdrój
 - Gliwice
 - Sosnowiec-DOBROWA GÓRNICZA
 - Tychy
- ! Suwałki Special Economic Zone, managed by a joint-stock company under the same name located in Suwałki and operating through sub-zones of:
 - Suwałki
 - Gołdapia
 - Ełk

Newly established zones include:

- ! Legnica Special Economic Zone, managed by a joint-stock company under the same name located in Legnica. It is a dispersed zone located in three areas of:
 - Krzywa
 - Legnica
 - Polkowice
- ! Łódź Special Economic Zone, managed by a joint-stock company under the same name located in Łódź and operating in the areas of:
 - Ozorków
 - Zgierz
 - Łódź
 - Pabianice
- ! Wałbrzych Special Economic Zone, managed by Inwest-Park Ltd. Located in Wałbrzych and operating through four sub-zones of:
 - Wałbrzych
 - Nowa Ruda



- Kłodzko
- Dzierżoniów

Planned zones include:

Applications for establishing special economic zones are in various stages, preparations of, among others, the authorities of the Provinces of Człuchowa, Gorzów, Olsztyn, Tarnobrzeg, Warsaw (around Okęcie Airport on the area belonging to Ursynów and Włochy and in Modlin - under the name of Mazowsze Economic Development Zone) and also the applications from Starachowice and Żarnowiec.

Six special economic zones established in Poland so far cover the total area of 2,670 ha. It is estimated that 90,000 new jobs will be generated there. So far, there are 50 investors active in the zones who are to generate 10,500 new jobs by 2001.

The amount of investments declared reaches PLN 3.8 million. The only tax exemptions granted to the investors (in Mielec Special Economic Zone) were PLN 800,000. In other zones the investors have not used them yet.

Over two years after the passing of the Law on Special Economic Zones by the Parliament both economic situation and the situation regarding capital investments have changed. In 1995 and 1996 total capital expenditures in economy increased by about 20 percent per year and the size of direct foreign investments doubled. It was, definitely, the result of a general improvement of the economic situation of Poland.

Despite many difficulties every Special Economic Zone established does operate and gain investors gradually. In Mielec and Suwałki zones usually small investments are undertaken and only their high number over a longer time will bring about clear effects for the regions.

In Katowice economic zone the situation develops in a different way. It started with locating a huge General Motors investment which acts magnet for other also important investors from automotive industry. Summing up, a progress in the development of the special economic zones established so far is moderate and gaining meaningful effects for the regions they operate in requires a few years of intense promotion, organizational activities and investments both in infrastructure and production.

The Law on Special Economic Zones provides that incomes obtained on activities performed in the zones can be fully exempt from income tax over time equal half the time for which the zones have been established. The economic zones are established for twenty years which means 10-year period of full income tax exemption with a possibility of extending it by 5 years. Incomes gained over the next years will be subject to 50 percent tax exemption.

Tax exemptions in individual special economic zones include:

- Mielec Euro-Park: outlays above ECU⁴ 2 million or half of the revenue from export of goods and services, or possibly 100 people employed
- Katowice Zone: capital investments above ECU 2 million or employing 100 of staff
- Suwałki Special Economic Zone: outlays exceeding ECU 350,000 or employing 40 of staff
- Legnica Zone: capital investments exceeding ECU 850,000 or employing 100 of staff
- Łódź Zone: investing of minimum ECU 2 million or employing 100 of staff
- Wałbrzych Zone: capital investment exceeding ECU 500,000 or employing at least 50 of staff

Entities not entitled to those exemptions are entitled to charge capital expenditures to allowable expenses or to increase depreciation rates for fixed assets used to run business activity in the zone.

Yet, the above described exemptions and allowances are not the only ones that may be used by the investors in the special economic zones. Some Provinces which have the zones carry out restructurization programs or regional development programs supported by the State.

The provinces that carry out regional restructurization programs supported by the state budget (with total amount of over 63 million zloty this year) include:

- Katowice
- Koszalin
- Łódź
- Olsztyn
- Suwałki
- Wałbrzych

Provinces included in four pilot regional development programs funded in 1997-1999 with ECU 47.5 million allocated by the government from PHARE funds:

- ! Bielsko-Biała, Kielce, Kraków, Krosno, Nowy Sącz, Przemyśl, Rzeszów, Tarnobrzeg and Tarnów - Małopolski Program Rozwoju Wsi i Rolnictwa (Małopolska Country and Agriculture Development Program).

⁴ ECU 1.00 equals PLN 3.70.

- ! Elbląg, Koszalin, Olsztyn, Piła, Sępólno, Suwałki and Toruń - Regionalny Program Restrukturyzacji Gospodarki i Przeciwdziałania Bezrobociu w Polsce Północnej (Regional Economic Restructurization and Unemployment Counteracting Program In Northern Poland).
- ! Katowice - Program Restrukturyzacji i Rozwoju Gospodarki (Restructurization and Economic Development Program).
- ! Zielona Góra - Program Ekorozwoju w Euroregionie "Sprewa-Nysa-Bóbr" (Eco-development Program in "Sprewa-Nysa-Bóbr" Euro-Region).

Description of Individual Special Economic Zones

Mielec Euro-Park Special Economic Zone

The Mielec Euro-Park, the first Special Economic Zone in Poland was established on 6 October 1995. It covers the area of 575 ha including an airport (350 ha). The area belonged formerly to WSK "PZL-Mielec" which narrowed down the area of its activity as a result of deep transformation. The property left after restrukturyzacji, i.e., production buildings, warehouses and office buildings as well as sites for new development was taken over by Agencja Rozwoju Przemysłu S.A. in Warsaw (Agency for Industry Development) which was appointed the operator of the Mielec Euro-Park Special Economic Zone.

Beside WSK "PZL-Mielec" S.A. 20 limited liability companies that employ almost 9,000 people belong to the holding structure.

The biggest companies of the holding are:

- Zakład Lotniczy "PZL-Mielec" Sp. z o.o. (Aircraft plant)
- Wytwórnia Aparatury Wtryskowej "PZL-Mielec" Sp. z o.o. (Injection equipment manufacturer)
- Zakład Narzędziowy "PZL-Mielec" Sp. z o.o. (Tool shop)
- Wytwórnia Silników "PZL-Mielec" Sp. z o.o. (Engine production plant)
- Wytwórnia Pojazdów Melex "PZL-Mielec" Sp. z o.o. (Melex- electric car manufacturer)
- Zakład Przetwórstwa Tworzyw Sztucznych "PZL-Mielec" Sp. z o.o. (Plastic processing plant)
- Wytwórnia Zespołów Kooperacyjnych "PZL-Mielec" Sp. z o.o. (Assembly manufacturer)

Holding companies offer design, research and production bases.

Moreover, the Zone offers: skilled staff, research and scientific base, co-operation opportunities, buildings and developed areas, high reserves of power. Buildings and building plots will be sold, leased to investors through negotiations.

According to regional conditions a development plan provides for preferred production activities, especially in the following fields:

- Metal products, machines and equipment
- Transport equipment
- Products for building industry
- Light industry
- Food industry (the region comprehends 6 well developed agricultural communes)
- High-end products

Services for the investors operating in the Zones are also planned for.

However, activities hazardous to environment, dangerous or burdensome for the environment are not planned in the Mielec Euro-Park. It is not allowed to run business connected with the production of explosives, production, bottling and processing of spirit and alcohols, tobacco products and also with games defined in the regulations about lotteries and bets.

Exemptions and allowances in the Mielec Special Economic Zone.

Investors can apply for income tax exemption after meeting the following conditions:

- ! Capital investments of less than ECU 2 million, until capital expenditures incurred are balanced.
- ! Capital investments exceeding ECU 2 million, complete exemption over a period equal half the time of zone operating (10 years) and 50 percent tax allowance over remaining period.
- ! Generating new jobs - 10 percent tax exemption for every 10 new employees for 10 years and 5 percent exemption for every 10 new employees over the remaining period.
- ! Exemption from export tax for 10 years in the amount equal to 50 percent of the value of export revenues and in the amount of 25 percent of the value of export revenues over the remaining period.

The Mielec Zone is close to the first billion of zlotys invested. 22 permits have been issued for the capital investments of 973 million zloty.

Mielec region has an excellently trained staff representing various professions and specialties. Beside engineers and technical staff almost half of the employees of the companies operating in the Special Economic Zone are mechanics and high skilled workers specialized mainly in metalworking. Long tradition and experience gained in aircraft industry turn out to be useful in designing, implementing of new technologies and cooperative production of new products (e.g., cooperation with Boeing dating back to 1992).

Mielec region has been strongly affected by unemployment. Investors entering the Zone have an opportunity to choose potential employees from the unemployed who lost their jobs after the collapse of the former WSK production. They are mainly young or middle-age skilled workers.

It is estimated that about 3,500 new jobs will be generated on 60 ha of the Zone by 2001.

Katowice Special Economic Zone

The Katowice Special Economic Zone started with locating a big General Motors investment on its ground which is a magnet attracting other also important investors. Production capacity of this plant is 70,000 - 100,000 cars per year and can be possibly increased to 150,000 units per year.

One of the assets of the Katowice Special Economic Zone is a free customs area managed by a budgetary entity from Gliwice. Beside a storing function the free customs area is a place where 6 private companies operate in leased buildings (assembly of medical equipment, computer units, packing of edible oils, production of food concentrates and cakes). Only 130 people have been employed full-time. However, the space of the free customs area has been used to a small extent and about 80 percent of the area can be developed.

Social effects resulting from the establishing of the Katowice Special Economic Zone:

- ! Counteracting the rise of social protests resulting from the restructurization of obsolete production processes and liquidation of jobs resulting from the cease of coal mines exploitation or the limitation of their production. Jobs in the Zone will be very modern and in exceptionally favorable work conditions.
- ! Zone establishing will solve unemployment problem in Katowice region partly. It is estimated that about 10,000 new jobs will be generated within the Zone by 2002 and additional about 10,000 jobs will be generated outside it in sub-regions over the same period. Enterprises in the Zone will be able to choose from about 70,000

graduates of the Silesian Technical University, technical schools and the unemployed.

- ! One of the basic task of the Zone is to create conditions to counteract bankruptcies of existing plants resulting from the competition of modern EU products.
- ! The city will reach an European rank as the center of a modern automotive industry.

Economic effects are following:

- ! The Zone will become a profitable venture for the state budget.
- ! The Zone will attract capital investments of about US\$ 1 million including about 34 percent of this amount as the share of General Motors. The remaining 66 percent will include both Polish and foreign capital.
- ! The building of the Zone will speed up restructuring processes in industry and residential housing.

Activities forbidden in the Katowice Zone:

- ! Production of explosives as well as guns and ammunition, production of spirit and alcohols, engine fuels and tobacco products as well as business activity defined in regulations about lotteries and bets.
- ! Production connected with air pollution that added to the present situation might cause the exceeding of permissible concentrations in the air.
- ! Activity connected with storing, production and transport of hazardous waste.

The main problem of the Katowice Special Economic Zone are those parts of it that comprehend industrial area, e.g., a liquidated Saturn coal-mine and òory coal-mine. The areas are developed, yet demolitions as well as contaminated land reclamation often very costly are needed. Yet, the companies that operate the Zone have no funds earmarked for this purpose. Therefore, a decision was taken that the Zone operator will collect commission on every act of ground sale.

The biggest capital investments in the Zone are green field investments located on wasteland. GM Opel will build a DEM 500 million plant on 70 ha and will employ about 2000 people, Isuzu will build an engine production plant on 100 ha in the Tychy sub-zone of the Katowice Special Economic Zone and will employ about 380 people. 12 percent of the Katowice Special Economic Zone grounds have been sold to investors so far; all the grounds are green fields.

At present the management of the Katowice Zone is negotiating with next 100 companies including many domestic companies. The biggest Polish company in the Katowice Special Economic Zone is Agora Poligrafia which is going to build a printing house in Tychy.

Tax exemptions in the Katowice Special Economic Zone:

- 10 percent exemptions from income generated due to the employment of 5 people
- Total income tax exemptions have been accepted for capital investments exceeding the amount equivalent of ECU 1,200 thousand

Łódź Special Economic Zone

The Łódź Special Economic Zone was established on 15 April 1997. Its total area covers 205 ha. The operator of the Zone is a joint-stock company called Łódzka Specjalna Strefa Ekonomiczna in Łódź (Łódź Special Economic Zone). The Zone is a dispersed zone consisting of four sub-zones: Łódź, Zgierz, Ozorków and Pabianice.

Łódź sub-zone will consist of three complexes:

- "Nowy Józefów-Srebrna" Complex - 60.5 ha of green field
- "Centrum" Complex - 13.1 ha area
- "D•browa" Complex - 3.5 ha of green field

Zgierz sub-zone consists of two complexes:

- "Boruta" Complex - 21.7 ha
- "Radunki" Complex - 0.8 ha

Ozorków sub-zone covers the area of 32.2 ha. There are exceptional investment values for the development food, chemical, machine building and electronic industries there.

Pabianice sub-zone consists of complexes: Porszewice and Widzew.

- “Porszewice” Complex is a green field of 29.19 ha
- “Widzew” Complex is a green field of 38.25 ha situated next to the Agro-food Wholesale Market

Tax exemptions in *Łódź* Special Economic Zone — Investors can apply for the following tax exemptions in the Zone:

- Total tax exemption for 10 years, if the investors invest minimum ECU 2 million or employ not less than 100 people over the whole period
- 50 percent tax exemption for the next years

Preferred development directions of the *Łódź* Special Economic Zone:

- Chemical and pharmaceutical industries, especially biotechnologies
- Food industry - especially food processing
- Metal and precision industry
- Pollution control equipment industry
- Medical technology industry
- Electronic industry
- Building materials industry
- Automotive industry

Suwałki Special Economic Zone

The Suwałki Special Economic Zone started to operate in the beginning of December 1996. First 12 investors have received permits for running business there.

The Special Economic Zone covers 432 ha and is divided into three areas: 261 ha around Suwałki, 107 ha around Ełk and 64 ha close to Gołdapia.

This Zone focuses mainly on attracting small enterprises. An investment of about ECU 350,000 will ensure a 10-year tax exemption for an investor. Smaller investors can use allowances by employing the unemployed.

The purpose of establishing the Suwałki Special Economic Zone is, first of all:

- The development of Suwałki region by an optimum use of resources available within the Zone and in the whole region
- Generating of target 15,000 new jobs in the Zone

- Forming of a strong center of economic cooperation with neighboring country markets

Income tax exemptions in the Suwałki Special Economic Zone:

- In order to apply for income tax exemption required outlays to investments should exceed ECU 350,000
- Employment of 40 people

Legnica Special Economic Zone

The purpose of the Legnica Special Economic Zone is:

- To restructure copper industry
- To manage grounds devastated and left by Russian army
- to generate 15,000 new jobs

Allowances and exemptions the investors in the Legnica Special Economic Zone can apply for:

- Capital expenditures exceeding ECU 850,000
- Employment of 100 people

Wałbrzych Special Economic Zone

A decree about the establishing of the Wałbrzych Special Economic Zone was announced on 15 April 1997.

The main objective of the Wałbrzych Special Economic Zone is to speed up the restructuring of a region threatened by a social and economic crisis. As a result of the Zone establishment the number of jobs in the Province should grow by about 16,000.

The grounds of the Zone are situated entirely in Wałbrzych Province and comprehend four areas located within the city boundaries of: Wałbrzych, Nowa Ruda, Dzierżoniów, Kłodzko of the total area of 256.43 ha including:

- Wałbrzych area - 133.01 ha
- Nowa Ruda area - 84.41 ha
- Kłodzko area - 23.34 ha
- Dzierżoniów area - 15.67 ha

The Province borders on the Czech Republic and has more than ten border checkpoints with its southern neighbor. The Province has a well-developed industry that will ensure a possibility to use skilled workforce.

Beside industrial traditions the province provides numerous and attractive conditions for holiday. There are well-known and highly valued health resorts there: Duszniki Zdrój, Polanica Zdrój, Szczawno Zdrój and other.

During its functioning the Zone offers attractive investment conditions to industrial investors:

- ! Complete income tax exemption for the first 10 years of zone existence and 50 percent exemption over the remaining period. The amount of the exemption is set on the basis of one exemption options chosen:
 - Income tax exemption of the income equivalent to capital expenditures incurred. If those expenditures exceed ECU 500,000 income is exempted completely.
 - Income tax exemption of 20 percent of income per every 10 people employed by an entity, yet this exemption cannot be less than 20 percent and more than 100 percent of a monthly income.
- ! An entity not entitled to income tax exemptions can charge expenses for purchase of intangibles to allowable costs.
- ! Property tax exemption.

Cz" stochowa Special Economic Zone

The idea of the establishing of the Cz" stochowa Special Economic Zone arose at the end of the 1980s when a necessity of introducing important qualitative changes in Cz" stochowa Province economy had been perceived.

A final application for the establishing of the Cz" stochowa Special Economic Zone was submitted in November 1995.

The area proposed for the Zone was the area a Warsaw Treaty Organization supplementary airport of Rudniki, 50 kilometers away from Pyrzowice Airport. In the initial phase an area of 150 ha 200 meters to the south from the edge of the airport runway is proposed to be excluded. It belongs to the state treasury.

Advantages of a zone location in Cz" stochowa region:

- Accessibility to workforce and specialists living in Cz"stochowa and in a neighboring Cz"stochowa urban area
- Convenient road system
- Closeness of residential neighborhoods
- Possibility to use Rudniki airport for passenger and goods transport

The establishment of the Zone is perceived as the first step towards the restructuring of the Province and Silesia, since a considerable percentage of employees of Silesian coal-mines are the residents of Cz"stochowa Province. The economic zone will provide those people with many new jobs.

Transfer of modern technologies will also be important. This criterion of the establishing of the Cz"stochowa Special Economic Zone is connected with industry cooperation with local universities and colleges as well as contacts with foreign investors and supporting institutions.

Thanks to performing this project Cz"stochowa has also a chance to become a renowned worldwide tourist and pilgrimage center - a fact that 6 million pilgrims and tourists visit it every year is not made use of at present.

Starachowice Special Economic Zone

The Starachowice Special Economic Zone is one of the most important tasks of the "Strategic Program of Starachowice Development". Starting it up will guarantee investors long term allowances and preferences related to income tax because of running business activity and exemption from property tax.

The attractive Zone comprehending 110 ha of a fenced area located close to the city center with buildings of over 4 ha area to be used.

Business activities related to precision engineering of iron goods, car parts, automatic control of industrial processes and production of parts for electronic and building industries will be preferred in the Zone.

At present investors are offered cooperation of Cz"stochowa related to:

- The use of free areas and post-industrial facilities and staff skilled in metal industry
- Managing potable water resources of high quality and taste values
- The development of tourist, recreational and center-creative infrastructure

Economic entities that run or commence business activities in the city can use allowances to which communes of high structural unemployment are entitled and tax exemption and preferences proposed by local authorities.



Planned Special Economic Zones

S»upsk Special Economic Zone

The area proposed for establishing the S»upsk Special Economic Zone covers 135 ha in total and is situated in an industrial area in the north-eastern part of S»upsk. The area of the planned Special Economic Zone is mostly undeveloped.

Preferred industries in the planned economic zone in S»upsk are as follows:

- Machine and electrical engineering industry - 25 percent
- Food processing, especially fish processing - 20 percent
- Plastics processing - 15 percent
- Hide and skin processing - 10 percent
- Timber and furniture industry - 10 percent
- Other industries - 20 percent

Exemptions and allowances related to investors in S»upsk: It is suggested that income on economic activity in the Special Economic Zone should be exempted from income tax over 10 years since the commencing of economic activity in the amount of, alternatively:

- 20 percent of income for every 10 employees employed by the entity in a given month, yet not less than 10 percent and not more than 100 percent
- 20 percent of income that is equivalent to capital expenditures and 100 percent on exceeding ECU 700,000

After the period of 10 years the exemption cannot exceed 50 percent of income. Entities not entitled to income tax exemption may use the following preferences:

- Increase of depreciation rates related to fixed assets used for carrying out activity in the Zone
- Charging full amount of expenses for purchase of intangibles related directly to business activity performed in the Zone to allowable expenses. Land, buildings and structures will be exempt from property tax

It is expected that about 5000 new jobs will be generated in the Zone - an average space of 40 square meters per one employee.

Warmia and Mazury Special Economic Zone

The purpose of establishing of a Special Economic Zone in Olsztyn is to counteract difficult situation of residents of the areas affected by unemployment.

The present unemployment rate of 23.0 percent places Olsztyn Province on the 5th place in Poland. Every second unemployed in the Province has been looking for a job with no success for 12 months now. The unemployed living in rural areas make up about 49.0 percent of the total unemployed.

The planned area of the Special Economic Zone in Olsztyn Province covers about 400 ha in the following sub-zones:

- Bartoszyce - grounds in town and the direct neighborhood of Bezledy border checkpoint - 42 percent of the grounds have been developed
- Dobre Miasto - grounds within town administrative boundaries, mainly developed
- Sczytno - grounds within town administrative boundaries and adjacent to it, about 50 ha have been developed

Moreover, a zone is planned in the direct neighborhood of a border checkpoint at an international Szymany airport.

Permits for commencing business activity in the Zone can be obtained by investors meeting the following criteria: implementation of new technologies, no harmful environmental effects, stimulation of good economic conditions around the Zone, generating new jobs.

Natural conditions and location of Olsztyn province urge the development of:

- Agricultural, food and fodder industries which conforms to the agricultural character of the province, forcing the creation of natural - economically justified relations of processing enterprises with raw material producers
- Timber industry in a broad sense that uses domestic materials and those imported from Russia
- Plants producing consumer goods for eastern markets

Bankrupts' Assets, Private Grounds for Buy-outs as Sites for Investments

The following properties are competitive to KAIP grounds:

- Communal grounds
- Private grounds
- grounds and properties of enterprises not only from Kutno region

Investment opportunities of Polish cities are high and still growing according to surveys. Local investment dynamism has been growing in Poland for six years now. Forecasts indicate that this growth will be maintained in 1997, as well, mainly due to the growth of possibilities of obtaining by the cities investment financing outside their budgets (municipal bonds).

Over 60 percent of local capital investments concerns technical infrastructure (roads, wastewater treatment plants, sewage systems, extending water supply systems, etc.). All this leads to the improvement of infrastructure and development of many cities and towns in order to arouse interest of potential investors and attract them to those centers.

Cities and towns are interested in concluding profitable contracts by locating industrial plants on their grounds. Thus, their offers include many better and more comprehensively developed investment grounds.

Offered sites, i.e., urban grounds and properties, are made available on various terms (lease, sale) and planned for the development of industry, chains of commercial or service outlets. The "Katalog Ofert Inwestycyjnych Miast Polskich" (Catalogue of Polish Cities' Capital Investment Offers) issued the Association of Polish Cities in 1996 offers a wide range of investment grounds (over 500 sites).

Among the properties belonging to the Municipality of Kutno and being a competition to the KAIP are enterprises in liquidation that narrow down their space and also private properties. In total, about 50 ha of such grounds can be found in Kutno region.

The grounds of Kutno Municipality are located in industrial districts such as Mickiewicz Street, Majdany and next to the E-30 road. The majority of those grounds are green fields with no buildings and requiring additional development. There is a necessity to, e.g., build a medium-voltage line, connect to a rain-water collector, sanitary sewage system, water-supply system and phone system.

Beside 5 ha of grounds, the properties of former enterprises include also buildings adapted to performing economic activity. The majority of those grounds are well developed and allow an instant start-up of production.

Such property structure, locations and development can be competitive to the KAIP grounds, to some extent. Yet, they are not competitive significantly, since the majority of properties are in a similar technical and infrastructural situation as the grounds that belong to the KAIP. The only threat can be grounds with buildings (an offer for investors not interested in capital investments of a green-field type).

KAIP SWOT ANALYSIS

Strengths

Place to Invest

- ! Location - the center of Poland
- ! Rail junction
- ! East-west railway main line
- ! A-2 international road
- ! Planned north-south superhighway
- ! Commitment of local authorities
- ! Climate favorable to capital investments (a business incubator, the Agency for Regional Development, The Regional Chamber of Economy)
- ! High supply of workforce
- ! High potential of skilled staff
- ! Cheap workforce (compared to big urban areas)
- ! High potential of raw materials for processing industry
- ! Enterprises already located in Skł"czki district (Polfa, BASF, Danagri Pol, Schomburg, Volvo, Agroma, Centrozap)
- ! Kutno included in the Pilot LGPP

KAIP Grounds

- ! Grounds belong to one owner - gmina
- ! Only Kutno grounds with all technical media: water supply, regional thermal plant, gas mains, GPZ station
- ! Adequate sites for green-field investments, i.e., ventures started up from scratch

Weaknesses

Place to Invest

- ! Competition in the area - a large offer of sites for investments
- ! Poor image of the city - a low position of Kutno in city rankings published and available nationwide and the lack of good public relations)
- ! Use of the KAIP for political struggle - an important meaning in the context of close parliamentary elections and local government elections next year
- ! Lack of strong cooperative relations between existing enterprises and foreign cooperating parties that might attract next companies with foreign capital
- ! Low consumption level of Kutno region resulting from low wages, high unemployment, small urban area
- ! East-West superhighway 40 kilometers away from Kutno and the KAIP grounds
- ! Lack of strong relations and actual cooperation of the city and region with partner regions in other countries
- ! Weakness of existing young economic organizations such as: the Regional Chamber of Economy, Business Club, which do not have a strong position as partners in attracting investors
- ! Lack of a strong body - developer (focused on economic success for which the establishing of the KAIP would mean benefits) that would manage the KAIP venture in a commercial way together with the city (which is managing the venture now performing tasks different than resulting from its actual authority)
- ! The beginning of the venture as the Park (no arguments convincing investors to invest)
- ! Lack of academic centers and research institutes that would generate highly skilled staff
- ! No sources of financing specified or existing financing possibilities in order to increase the attractiveness of the grounds due to their quick additional development

- ! No analyses and conceptions as to the possibility of obtaining sources of financing other than loans (e.g., municipal bonds, etc.)

KAIP Grounds

- ! Lack of sufficient development
 - Internal roads
 - Power distribution
 - Water supply and sewage systems distribution
 - Gas and heat connection distribution
 - Phone connection distribution
- ! Conflicts and limitations
 - Gas main line
 - Overhead and cable power lines
 - The Malinka Stream
 - No access to the KAIP from the north (necessity of crossing the city)
 - Necessity of taking into account location conditions and conditions resulting from limitations, conflicts and demanded by such institutions as: Environmental Protection Department, a power distribution plant, etc.

Opportunities

The establishing of the Kutno Agro-Industrial Park and starting up many companies within it will allow the decrease of unemployment by generating new jobs. That is an important issue for Kutno region that is characterized by a high per cent of the unemployed. It will also be possible to lower a hidden unemployment in the rural areas.

This issue is also related to the possibility of attracting labor potential that leaves the region, namely young people who go to other cities to study and stay there after graduation. This happens because young people cannot see any chances for Kutno development and getting interesting jobs. The establishing of the KAIP will help to change the vision and perception of the city as the one that develops and has better prospects for attractive jobs, good wages and opportunities of qualification improvement and living standard improvement.

The establishing of agricultural and food processing companies in the KAIP is justified. Agriculture, horticulture and vegetable growing well developed in this region and ensuring a good material base provide many opportunities for the development of this industry. With such a production base companies will find it more profitable to buy raw materials from local farmers than to get them from other distant regions of Poland. This fact will definitely influence

the cut in the costs of production and thus in retail prices of goods. An this, further, will be favorable for the city residents as consumers.

Farmers will profit from the implementation of the KAIP idea, too. They will gain a new absorptive market for their crops, losses resulting from the lack of customers and crop wastage will decrease and that will, at the same time, generate more profits for the farmers. Processing plants will, thus, support farmers' activity in a profitable way. They will cause the development of an agricultural and food base and the increase of crops. Yet, it should be noted, that profit from production of crops is lower than in the whole food production cycle. Therefore, agricultural manufacturers gathered in processing organizations will make the increase of the value of products and the effectiveness of Kutno region possible.

The establishing of the KAIP will provide an opportunity for the development of local business that exist in the region. It will help to gain new markets and promote those companies in the regions which they have not reached or could not reach. A KAIP advertising campaign will also promote the city and industry that has been operating so far. This will influence the growth of regional export possibilities, as well.

The central position of the Park in Poland with favorable transport conditions and an interesting KAIP idea will help to attract and arouse interest in foreign investors, too. Foreign investors entering the local market will bring about the implementation of modern technologies, management methods and a "healthy" competition to local companies.

Moreover, companies supporting and providing business services will develop. There will be good opportunities for banks, hotels, restaurants, commerce, marketing and real estate agencies.

A more effective funds turnover, tax inflows and other charges related to carrying out business activity will, favorably, increase the city budget. The bigger budget will allow its better distribution and performing of many outstanding capital investments like upgrading and improving of roads, road drainage system, environment-oriented activities, improving educational base and supporting existing schools, increasing safety and the number of recreational places.

Threats

There is a threat that the idea of establishing of the Kutno Agro-Industrial Park will not be supported by Kutno community and will not arouse interest among investors. The local community may become upset with the fact of investing capital in the Park and not in other, according to them, more important issues like, e.g., investments in urban infrastructure. There may be an accusation raised that money from e.g., residents' taxes has been "sank" in irrational ventures and it has not generated planned and expected profits.

A local patriotism may also be a threat not allowing outside companies enter the KAIP, especially those with foreign capital.

As far as technical issues are concerned threats may appear in relation to the lack of development of the Park grounds regarding some technical media and uneven development of technical infrastructure.

Unwillingness to invest and locate companies in the KAIP may also result from restrictions related to ecology and environmental protection of the Ochnia River crossing the Park grounds. No spill banks along the river and a threat of ground flooding have a negative impact on interest in this area.

The establishing of the KAIP may be threatened, if the flow and distribution of information is improper and promotion and marketing poor. Both local community and potential investors, if not informed or informed in a wrong way, will be reluctant towards the activities of local authorities even most committed to the establishing of the KAIP.

A necessity of outlaying considerable funds to the development of ground, especially - H7, H8, H9.

If the KAIP is being established for a long time, the rate of investment growth will be very slow making a good repayment of a commercial loan obtained impossible. Joint ventures rather than green-field investments are predominant in Central Europe.

LOCATION CRITERIA

Basic Criteria and Key Requirements Taken into Account by Investors When Choosing Location

Investor's Requirements and Effects Related to the Choice of Location Can Be Classified as Follows

- ! Natural environment, i.e., geophysical conditions
- ! Environmental effects, assessment of environmental impact
- ! Infrastructure - conditions and requirements, e.g., an existing industrial, economic and social infrastructure, urbanization and social education level

Natural Environment and Ecology

Climate is an important element for the investor's choice of location. Beside a direct influence on project costs related to such factors as drainage, air conditioning, cooling or special dewatering there may be other important environmental factors.

Climate conditions are also important depending on a project. In case of agricultural and food industry projects it may mean fluctuations in quantity and quality of raw materials due to extreme weather conditions.

All investment projects must be harmonized with environmental requirements for a given area. Some projects may not have negative effects on environment but are sensitive to such effects. An agricultural or food industry project depends on raw material supplies the value of which depends directly on the degree of water and soil purity.

Infrastructural Conditions

Accessibility to a developed and diverse economic and social infrastructure has also a great meaning for project performance.

A project size may also cause a material limitation of location choice. Quantitative and qualitative requirements in regard to power, public services, workforce, ground, etc. during project implementation and operation can be met by few organizations.

At the stage of starting negotiations with investors it must be analyzed whether project requirements regarding technical infrastructure do not impose certain location limitations. Differentiating between necessary requirements and needs and offered possibilities will allow the increase of negotiation process effectiveness and not entering into projects for which location requirements differ considerably from the possibilities possessed.

Location requirements and conditions decisive to the choice of both the location and the ground can be evaluated by the investors based on defined company strategies as well as financial and economic effects the final choice can have on the project. The positioning of sources of raw materials and material base or main markets can be a starting point to making a final decision. Moreover, favorable environmental conditions are important, good resources of workforce, adequate meeting of fuel and energy needs, water supply and wastewater collection needs and transport needs.

Project Guidelines

- ! The development of a KAIP project should enable an investor to compare easily location requirements the investor puts forward with the offered ones. Thus, there is a need for developing a detailed well-defined plan.
- ! The KAIP project is not directed to a specific existing investor but to a potential investor. This demands a high flexibility in planning so that various investors' requirements can be met.

Those two extremely different guidelines can be carried out by dividing a planning process and project execution into stages. Earlier stages should be precisely defined and later stages should be in a form of a conception and be developed in detail, when the first stages have entered an implementation phase.

CHAPTER 6

PURCHASERS' (INVESTORS') ANALYSIS

The next step after performing an environment and product (KAIP) analysis is to identify purchasers, their needs and methods of acting on the market.

The following issues are subject to analysis:

- ! What are the motives of a purchase?
- ! Who are purchasers - identification of investors
- ! Factors determining decision making process

The following features are characteristic for the investment market:

- ! Reasonable needs of purchasers
- ! High complexity of decision making processes of an organization, participation of many people in that processes who form opinions and make decisions about purchases
- ! Professionalism of a purchaser
- ! A relatively long period between first contact and the conclusion of a transaction

COMPANIES WITH FOREIGN CAPITAL IN A LOCAL ENVIRONMENT

The process of political transformation in Poland is connected with the formation of a new system of social and business activity entities. The cooperation of local authorities and investors is very important here.

Developing of local social conditions for company activities has a complex influence on the pace and effects of economic reforms, which shows especially in the operations of the companies with foreign capital. General opinions on this subject vary from one extreme to another: perceiving, first of all, of the conditions of company activity in state policy and a conviction that most important and decisive factors lie in the local environment.

The following surveys have been performed to verify those opinions:

- ! On activities of companies with foreign capital in the local environment performed by Centrum Bada½ Marketingowych INDICATOR (Marketing Survey Center) in 1995
- ! A survey carried out among the investors existing in Kutno region, performed by the American Systems of Marketing

The survey performed by Centrum Bada½ Marketingowych INDICATOR was carried out in 106 communes chosen from the regions and Provinces of a diverse level of social and economic development and various conditions of foreign investors' activities. In every surveyed group interviews were carried out with both representatives of local authorities and managers of foreign companies (212).

Benefits Resulting from Running Business Activity in Poland

To a question on benefits resulting from the activities of foreign investors, almost all the managers (96.7 percent) say that companies with foreign capital bring more benefits to local communities than threats. The majority of the local authorities' representatives (88.7 percent) are of the same opinion.

According to the opinions of foreign investors and local authorities those benefits relate to: the increase of jobs (indicated by 88.7 percent of the investors and 85.8 percent of the authorities), economic revival of the local environment (87.3 percent of the investors and 86.8 percent of the authorities), implementation of modern technologies (86.3 percent of the investors and 79.2 percent of the authorities) and the development of foreign contacts (85.3 percent of the investors and 88.7 percent of the authorities). (table 27)

The majority of foreign investors (59.9 percent) think that their activities do not bring threats to the local environment. Fewer (45.3 percent) representatives of local authorities think the same. They most often mention: the inflow of "dirty" technologies (21.7 percent) and the importation of wastes to Poland (19.8 percent) and the bankruptcies of local enterprises resulting from the competition of foreign companies (17.0 percent). 15.1 percent of the foreign investors point to the last threat.

Table 27
Benefits to the Local Environment Resulting from the Activities of Foreign Investors

Ref.	Benefit	Percent of indications (foreign investors' opinions)	Percent of indications (local authorities' opinions)
1.	Increase of the number of jobs	88.7	85.8
2.	Economic revival of the local environment	87.3	86.8
3.	Implementation of new technologies	86.3	79.2
4.	Development of contacts with abroad	85.3	88.7
5.	Improvement of deliveries to local market	68.4	55.7
6.	Improvement of living standards	67.9	62.3
7.	Other	5.7	10.4

Local Environment Barriers for Running Business Activity in Poland

Foreign investors can face many barriers related to starting business activities in local environments. First of all, they result from - according to more than a half (58.5 percent) of the respondents - the weakness of market infrastructure (banks, communication and transport) that requires a quick modernization. Often, such an opinion is also expressed by the representatives of local authorities (41.5 percent).

Another type of limitations is of an economic nature and is connected with a limited purchasing capacity of the community (46,7 percent) or a narrow local market - 35.4 percent (table 28). Next, one fourth (25.9 percent) of the respondents mentioned the lack of professional workforce prepared to new technological and organizational requirements and guaranteeing high quality of products manufactured and services provided.

Table 28
Factors Limiting the Location of Companies with Foreign Capital

Ref.	Factors	Percent of indications (foreign investors' opinions)	Percent of indications (local authorities' opinions)
1.	Poor infrastructure (banks, communication, transport)	58.5	41.5
2.	Limited purchasing capacity of people	46.7	45.3
3.	Narrow local market	35.4	38.7
4.	Lack of professional workforce	25.9	15.1
5.	Reluctance of local authorities towards foreign investors	15.1	2.8
6.	Unfavorable attitude of local community towards foreign capital	12.3	12.3
7.	Disadvantageous location	9.0	11.3

Those barriers are of objective nature and removing them goes often beyond local possibilities.

The survey shows, yet, the occurrence of subjective barriers.

In every seventh gmina (municipality) the interviewed (15.1 percent) managers complain about the reluctance of local authorities towards foreign investors and in every eighth gmina (12,3 percent) about an unfriendly attitude of the community towards foreign capital.

The company managers assess the actions of the local authorities focusing on attracting an investor very critically. 32.1 percent of the respondents state that the local authorities do nothing or little in that scope and 22.6 percent do not see any such actions.

The location of foreign companies in those gminas occurs without the participation of the local authorities. Only 5.7 percent of the company managers say that they have received specific offers and proposals of cooperation and lease of grounds and properties (table 29).

Table 29
Actions of Local Authorities Aimed at Attracting Foreign Investors

Ref.	Actions	Percent of indications (foreign investors)	Percent of indications (local authorities)
1.	Do nothing or little	32.1	–
2.	Foreign investors cannot perceive any such actions	22.6	–
3.	Prepare offers, bulletins, brochures, information materials	21.7	56.6
4.	Organize fairs, exhibitions and meetings with investors	15.1	55.6
5.	Submit proposals of leasing grounds and properties	5.7	18.9
6.	Are friendly and open to every proposal	5.7	7.5
7.	Grant investment and tax allowances	3.3	19.8

Promotion of Local Environments

According to investors' opinions the sources from which they can obtain information are informal and private sources (a Polish individual or company which is the partner of the company - pointed at by 42.9 percent of the respondents), personal family contacts (34.0 percent), sporadic contacts with Polish companies and institutions - 25.9 percent (table 30).

Table 30
Sources of Information about Local Environment Used by Foreign Investors Before Starting Business Activity in Poland

Ref.	Sources	Percent of indications (foreign investors)	Percent of indications (local authorities)
1.	An individual/company being a partner	42.9	–
2.	Private contacts with Poles	42.5	–
3.	Prior trade contacts	41.0	23.6
4.	Contacts with a family in Poland	34.0	41.5
5.	Sporadic contacts with Polish companies	25.9	–
6.	Other foreign investors	21.7	–
7.	Local authorities (offers, brochures)	15.1	34.0
8.	Polish press, radio, TV	14.2	15.1
9.	Western press, TV, radio	14.1	–
10.	Government agencies, Provincial authorities carrying out promotional activity	–	36.8

Despite those shortages in promotional activities 63.2 percent of the managers assess their knowledge of the local environment positively. Yet, the local authorities are of a different opinion on that subject, two-third assess foreign investors' knowledge about local environment negatively and only one third - positively (table 31).

Table 31
Foreign Investors' Knowledge of Local Environment

Ref.	Knowledge	Percent of indications (foreign investors)	Percent of indications (local authorities)
1.	Very little	9.0	13.2
2.	Little	22.6	40.6
3.	Good	36.3	25.5
4.	Very good	26.9	8.5
5.	Difficult to specify	4.7	12.2
6.	No answer	0.5	–
Total		100	100

Results obtained show a need for an active promotion of regions and cities and towns as local markets for foreign investments in Poland. First of all, strategic assumptions for promotion should be developed defining its goals and forms adjusted to local requirements and expectations of foreign investors.

Difficulties Resulting from the Establishing of Companies with Foreign Capital

Foreign investors must overcome many difficulties in the beginning of their activity. First of all, they face difficulties at the stage of developing good technical and organizational conditions for starting up economic activity (indicated by 39.6 percent of the managers) and recruiting and employing of an adequate staff (39.2 percent). One third (34.4 percent) of the respondents have problems with the preparing of documentation and registration of the company and 17.5 percent have problems with obtaining a permit from local authorities for starting activity. Other difficulties come up when they look for business partners to start various forms of cooperation, purchasing and trade (17.9 percent). This last type of difficulties is much more often noticed by the representatives of the local authorities (54.7 percent) (table 32).

Table 32
Difficulties in the Establishing of Companies with Foreign Capital

Ref.	Difficulties	Percent of indications (foreign investors)	Percent of indications (local authorities)
1.	Developing of good technical and organizational conditions for starting business activity	39.6	40.6
2.	Recruitment and employment of an adequate staff	39.2	24.5
3.	Preparation of documentation and formal registration of a company	34.4	38.7
4.	Gathering a good group of employees loyal to the company	29.4	32.1
5.	Finding business partners	17.9	54.7
6.	Obtaining a permit from the authorities for starting a business activity	17.5	10.4

It turns out from the results obtained that only a part of foreign investors receive assistance in overcoming the above mentioned difficulties. The investors surveyed point most often to municipal authorities (43.9 percent) as a supporting body or to municipal officials (30.2 percent). Companies with foreign capital receive assistance also from the local economic environment - Polish private businessmen (21.7 percent), managers of state-owned enterprises (19.3 percent) and also other foreign companies (17.0 percent). Moreover, they

can be supported by country-wide organizations - 25.9 percent of the respondents point at government agencies (e.g., Państwowa Agencja Inwestycji Zagranicznych /Polish Agency for Foreign Investment/ and Polska Agencja Rozwoju Regionalnego /Polish Agency for Regional Development/) and 20.8 percent at the entrepreneurs' organization (e.g., economic chambers and associations and business clubs).

The representatives of the local authorities express much more favorable opinions on an assistance provided to the foreign investors. 89.6 percent of the examined point at their own assistance and 77.4 percent at the assistance of municipal officials. Almost two-third (61.3 percent) of the respondents mention assistance of entrepreneurs' organizations; 47.2 percent - assistance from Polish entrepreneurs and 36.8 percent - assistance provided by state-owned enterprises (table 33).

Table 33
Role of Local Institutions and Organizations in Starting Activity by Companies with Foreign Capital

Ref.	Type of local individuals, institutions and organizations	Percent of indications (foreign investors' opinions)		Percent of indications (local authorities' opinions)	
		Provided assistance	Made difficulties	Provided assistance	Made difficulties
1.	Mayor of a city/town, administrator of a village	43.9	6.1	89.6	—
2.	Polish local entrepreneurs	21.7	5.2	47.2	9.4
3.	Church	6.6	1.4	15.1	1.9
4.	Municipal officials	30.2	12.3	77.4	1.9
5.	State-owned enterprises	19.3	6.1	36.8	8.5
6.	Other companies with foreign capital.	17.0	1.9	36.8	7.5
7.	Entrepreneurs' organizations	20.8	0.5	61.3	—
8.	Government agencies	25.9	4.2	45.3	2.8

Barriers Resulting from Running Business Activity in Poland

The list of shortcomings made up by the investors includes a few important items. What is needed most on the local environment are companies providing information about business partners (indicated by 56.6 percent of the respondents) and information about Polish economy in general (43.9 percent) and the local environment in particular (41.0 percent). Moreover, foreign investors point at information shortages about companies providing business services (37.7 percent). Besides, they point at difficulties of starting cooperation with consulting firms

(36.8 percent) and advertising agencies (26.4 percent). A few (0.9 percent) complain about legal services. It is worth to notice a full agreement of foreign investors' and local authorities' opinions concerning the lack of local business services (table 34).

Table 34
Assessment of Business Services in the Local Environment

Ref.	What is lacking	Percent of indications (foreign investors)	Percent of indications (local authorities)
1.	Firms providing information about business partners	56.6	56.6
2.	Information about Polish economy	43.9	39.6
3.	Information about the local environment	41.0	44.3
4.	Information about companies providing business services	37.7	34.9
5.	Consulting firms	36.8	35.8
6.	Marketing agencies	36.8	36.8
7.	Advertising agencies	26.4	25.5
8.	Economic development plans	0.9	–
9.	Legal services	0.9	–
10.	Lack of a direct contact of parties in question	–	1.9
11.	Lack of loans, a partner with capital	–	1.9
12.	Lack of good knowledge of regulations	–	1.9
13.	Lack of regulation stability	–	0.9

The foreign investors are most often dissatisfied with international telecommunication (46.2 percent) and local telecommunication (44.5 percent). International telecommunication is assessed negatively by 28.3 percent of the respondents. 22.6 percent of the respondents complain about fax communication. The local authorities notice problems in telecommunication services much more seldom. Long-distance telecommunication has been assessed negatively by 28.3 percent of the communes, local telecommunication by 28.3 percent, international telecommunication by 17.9 percent and fax communication by 13.2 percent.

Opinions Regarding Foreign Investors' Relations with Local Authorities

The opinion poll shows a hindrance in taking care of various company matters in local departments. A high conformity in opinions of the foreign investors and local authorities in this regard was recorded. Both groups of the respondents point most often at two hindrances. The first one refers to matters resulting from the ambiguity of regulations (pointed at by 59.9 percent of the investors and 58.5 percent of the local authorities).

The latter refers to the improvement of cooperation with revenue offices (pointed at by 43.4 percent of the investors and 34. percent of the authorities). The agreement between the opinions of the company managers and municipal authorities proves the existence of tensions resulting from incoherences of legal regulations and legal loopholes between country and local levels that show a need for the development of new regulations regarding operating of economic entities with foreign capital (table 35).

Table 35
Matters Foreign Investors Cannot Take Care of in Local Offices

Ref.	Matters	Percent of indications (foreign investors)	Percent of indications (local authorities)
1.	Matters resulting from ambiguity of regulations	59.9	58.5
2.	Improvement of cooperation with revenue offices	43.4	34.9
3.	Issues connected with telecommunication	40.6	32.1
4.	Not keeping dates by officials	31.6	18.9
5.	Frequent and burdensome inspections	31.6	15.1
6.	Customs issues	23.6	20.8
7.	Breaks in power supply	23.1	10.4
8.	Formalities connected with start-up of business activity	19.8	23.6
9.	Issues related to acquiring an ownership title	17.5	31.1
10.	Difficulties connected with obtaining work permits by foreigners	10.8	10.4
11.	Transport improvement	10.4	10.4
12.	Difficulties with obtaining permits for street advertising	9.9	5.7
13.	Difficulties related to corruption	7.5	5.7
14.	Difficulties related to obtaining tax allowances for employing the disabled	7.5	11.3

15.	Issues related to settling repair costs	5.7	4.7
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The suggestion about the improving of the law and guaranteeing a legal stability of foreign company functioning in Poland was clearly expressed in the opinions on the improvement of cooperation with local authorities given by the managers of those companies. The majority (60.8 percent) of the foreign investors say about the necessity of simplification and making the procedure of taking care of formalities in local departments less bureaucratic which, according to them, requires new legal regulations. It is worth noticing that also the majority (53.8 percent) of the representatives of the local authorities put forward the postulates of the simplification and debureaucratization of procedures of settling matters of foreign companies in municipal departments (table 36).

A significant number (23.6 percent) of the foreign investors criticize the arbitrariness of law application by the local authorities. They point out a need for the local authorities removing of those limitations in foreign business activities that do not result from legal regulations or decisions of the central authorities. This postulate is also put forward by 17.0 percent of the local authority representatives.

Table 36
Proposed Changes in Cooperation of Companies with Foreign Capital and Local Authorities

Ref.	Suggested changes	Percent of indications (foreign investors)	Percent of indications (local authorities)
1.	To simplify and debureaucratize the method of settling business matters	62.3	53.8
2.	To improve information flow in both directions	50.9	81.1
3.	To improve qualifications of employees serving companies with foreign capital	44.0	55.7
4.	To separate functions within the city that take care of foreign companies	16.3	28.3
5.	To remove limitations to business activities imposed by local authorities and not resulting from legal regulations or central authorities' decisions	25.1	17.0

Factors Decisive to the Foreign Investors' Choice of Investment Locations

As far as the promotion of Poland as the market for foreign investments is concerned there is no study which could provide a clear and attractive presentation our country with macroregional, provincial and local insights.

Unfavorable effects of the lack of such a study show clearly in the answers given by the foreign investors. It turns out that the location of companies with foreign capital is, first of all, the result of the connection of a Polish partner with the region. A personal relation of this type is pointed at by 36.3 percent of the respondents. It is worth noticing that this factor is independent from decisions and promotional activities of local authorities and institutions of all levels. The interviewed representatives of gminas (municipalities) point more rarely (24.5 percent) at personal connections of Polish partners with local environments in which companies with foreign capital operate.

The survey also revealed the influence of the partner's connection with the region on the choice of a company location. 23.1 percent of the foreign investors and 28.3 percent of the representatives of the local authorities point to that. Unfortunately, only few investors (4.2 percent) point at positive experiences of other companies with foreign capital in a given region as a factor decisive to the location of their own investments in Poland (table 37).

Table 37
List of Critical Factors Decisive to the Location of Companies with Foreign Capital (in percent)

Ref.	Critical factors	Percent of indications (foreign investors)	Percent of indications (local authorities)
1.	A Polish partner's connection with the region	36.3	24.5
2.	A favorable location and transport connection with a city/town	29.2	48.1
3.	Good supply and low price of workforce	25.9	43.4
4.	A possibility to take over empty production, warehouse and office buildings	24.5	46.2
5.	A foreign partner's connection with the region (origin, earlier contacts)	23.1	28.3
6.	A possibility to find new markets	22.6	34.0
7.	A big market in a region	13.7	29.2
8.	Little competition from local companies	11.3	19.8
9.	A good supply of and an easy access to raw materials in the region	10.4	16.0
10.	Low prices of raw materials in the region	7.1	9.4
11.	Positive experiences of other companies with foreign capital in that region	4.2	17.9

INVESTORS EXISTING IN THE LOCAL ENVIRONMENT - KUTNO REGION

The company American Systems of Marketing carried out a survey in 1997 aimed at gathering opinions from the investors running business activities in Kutno region on the establishing of the Kutno Agro-Industrial Park.

The survey was carried out in a direct way and 33 managers of the companies representing both small and big enterprises and various types of business took part in it.

The opinions gathered relate mainly to the investors' connections and their views on the KAIP and benefits or threats related to that.

The survey results can be used as a tool for developing a model of a potential investor's choice.

Table 38
Difficulties Resulting from Running Business Activity in Poland

Ref.	Difficulties	Percent of indications
1.	high tax burdens	78.8
2.	changeability of regulations	63.6
3.	high inflation (high loan interests)	54.5
4.	bureaucracy	42.4
5.	inflexible banking system	42.4
6.	low level of consumption	27.3
7.	legal and formal difficulties	21.2
8.	bribery	21.2
9.	lack of markets	9.1
10.	other	6.1
11.	there are no major difficulties	—
12.	lack of grounds for investments	—

Note:
The respondents could choose several items.

Answering that question the respondents could choose several options. Therefore, the percentage of indications gives more than 100 percent of answers.

According to the respondents most difficulties in running business activities result from high tax burdens - 78.8 percent of indications. This results, first of all, from an unstable political and financial situation in Poland that dominates on the Polish political arena. This fact has been confirmed, since as much as 63.6 percent of the respondents pointed to changeability of regulations as the second biggest difficulty.

It turns out from the opinions of the respondents that a high inflation causes many problems to businessmen (54.5 percent of total answers), since it results from high loan interests unfavorable for investors.

The fourth place among difficulties resulting from running business activities in Poland is occupied by two items: bureaucracy and an inflexible banking system - 42.4 percent each.

Less, although still meaningful, difficulties are: low level of consumption (27.3 percent of total answers), bribery (21.2 percent) and formal and legal difficulties (21.2 percent of total answers).

Table 39
Who Should Play a Key Role in the Activation of Local Business Activity?

Ref.	Description	Percent of indications
1.	Private investors	51.5
2.	Local government	33.3
3.	Economic chambers	12.1
4.	Investment funds	3.0
5.	Institutional investors	–
6.	Other	–
	Total	100

As many as 51.5 percent of the respondents pointed at private investors when answering a question: “who should play a key role in the activating of local business activity”. That means that this type of investor is most welcome due to the possibility of investing much higher capital than public investors. 33.3 percent of the respondents thought that local government should play a key role in activating local business.

Much fewer individuals pointed at such investors as economic chambers - 12.1 percent and investment funds - 3 percent.

Table 40
Why Does the Company You Represent Have a Seat in Kutno?

Ref.	Reasons	Percent of indications
1.	Historic events	48.5
2.	Kutno location	45.5
3.	Family reasons	39.4
4.	Familiar environment	33.3
5.	Low costs of running business activity	18.2
6.	Cooperation with other companies in Kutno	18.2
7.	Other	6.1

The respondents could point to several options when answering this question. Therefore, the percentage of indications is higher than 100 percent of answers.

48.5 percent of the Kutno managers surveyed stated that they had chosen Kutno as the seat of their companies for historic reasons while 45.5 percent because of Kutno location resulting both from the central position of that city in Poland and connections with main road and railway routes.

Family factors took the third place in the choice of Kutno for a company seat - 39.4 percent of the respondents chose that answer.

Next 33.3 percent of the respondents answered that the knowledge of the environment was the main reason of choosing Kutno as the place favorable to running business - this results from a fact that running business activity in the region in which the investor is familiar with surrounding trends and tendencies as well as customer behavior is easier and more profitable.

Next 18.2 percent of the respondents chose Kutno due to low costs of running business and 18.2 percent due to benefits resulting from cooperation with other plants in Kutno.

Table 41
Benefits the Respondents Can See in Running Business Activity in Kutno

Ref.	Benefits	Percent of indications
1.	Good location	63.6
2.	Cheap workforce	36.4
3.	Properly skilled staff	36.4
4.	Connections, relations	27.3
5.	Good atmosphere conducive to company development	24.2
6.	Cannot see any benefits	12.1
7.	Good image (Public Relations outside)	9.1
8.	Assistance of local government bodies	6.1
9.	Assistance of economic organizations	6.1
10.	Good recreational and cultural infrastructure	—
11.	Other	—

This question also allowed the respondents to choose several answers making up more than 100 percent.

Good location comes in first as a benefit the respondents can see in running business in Kutno - 63.6 percent. It confirms an argument that the good location of Kutno (geographical position, connections) is very favorable and convenient to the investors.

The next advantage pointed to by the respondents is a cheap workforce - 36.4 percent of total answers - resulting from high unemployment in Kutno and an adequately trained staff - 36.4 percent.

The next 27.3 percent of all the respondents see relations and connections causing a certain convenience as a benefit of running business in Kutno.

Next places are taken by:

- Good atmosphere conducive to company development - 24.2 percent
- Good image (Public Relations outside) - 9.1 percent
- Assistance of local government and economic organizations - 6.1 percent each

12.1 percent of all the respondents cannot see any advantages resulting from running business in Kutno.

Table 42
Negative Aspects of Running Business Activity in Kutno

Ref.	Negative points	Percent of indications
1.	Low level of consumption	51.5
2.	Weakness of economic organizations	36.4
3.	Lack of opportunities of spending spare time	33.3
4.	Lack of support for business from local authorities	30.3
5.	Bad interpersonal relations	24.2
6.	Low prestige	12.1
7.	Bad city image	12.1
8.	Difficult cooperation with city departments	9.1
9.	Other	3.0

Answering this question the respondents could point at several options so the percentage of indications is higher than 100 percent of answers.

51.5 percent of all the respondents pointed at a low consumption level as a negative aspect of running business activity in Kutno and the next 36.4 percent pointed at the weakness of economic organizations.

The lack of opportunities of spending spare time is on the third place. As many as 33.3 percent of the respondents marked that answer which may result from the fact that there are no cultural and educational or recreational centers in Kutno region.

30.3 percent of the respondents can feel the lack of support of local authorities towards business and 24.2 percent of all the respondents experiences bad interpersonal relations.

Among negative arguments against running business activity in Kutno latter places are occupied by low prestige and bad city image - 12.1 percent each - and difficult cooperation with city departments - 9.1 percent.

Table 43
Cities Preferred for Investing by the Respondents

Ref.	City	Percent of indications
1.	Kutno	72.7
2.	Other	15.1
3.	Warsaw	9.1
4.	Łódź	3.1
Total		100

Among the cities preferred to investing by the existing investors Kutno is pointed at most often - 72.7 percent, next position is taken by other cities - 15.1 percent - among which the respondents rate, first of all, cities with populations over 100,000. 9.1 percent of all the respondents chose Warsaw and 3.1 percent - Łódź.

Table 44
Factors That Influence the Attractiveness of Investment Grounds

Ref.	Factors	Percent of indications
1.	Location	45.5
2.	Site development	18.2
3.	Roads	15.2
4.	Price and form of sale	12.1
5.	Infrastructure	9.1
6.	Economic and political climate	3.0
7.	Human potential	3.0
8.	Clarified legal situation	3.0
9.	Low loan interests	3.0

This question allowed the respondents to choose several options adding up to more than 100 percent.

Proper location chosen by 45.5 percent of the respondents comes in first among the factors influencing the attractiveness of grounds for investments.

18.2 percent of the respondents point at site development in that question which, if meeting investor's needs, is a certain convenience and allows to save precious time.

For 15.2 percent of the respondents a competitive price and form of sale is the factor influencing the attractiveness of the ground - 12.1 percent.

Much fewer respondents chose infrastructure - 9.1 percent, while fewest points were given to economic and political climate, human potential, clarified legal situation and low loan interests - 3.0 percent of total answers each.

Table 45
Critical Factors Decisive to the Choice of Investment Locations

Ref.	Factors	Percent of indications
1.	Markets	33.3
2.	Location of grounds and surface features	21.2
3.	Infrastructure and site development	18.2
4.	Workforce	15.2
5.	Transport	15.2
6.	Support of local government	12.1
7.	Professional staff	9.1
8.	Prices of ground	9.1
9.	Sources of raw materials	6.1
10.	Growth of consumption and wealth of residents	6.0
11.	Quick settling of formalities	3.0
12.	City image	3.0
13.	City economic directions	3.0
14.	Low investment costs	3.0
15.	Possessing of own building ground	3.0

Answering this question the respondents could point at several options so the percentage of indications is higher than 100 percent of answers.

In the respondents' opinions markets - 33.3 percent - location of grounds and surface features - 21.2 percent - and infrastructure and site development - 18.2 percent - are the most important factors decisive to the choice of investment locations.



The following factors are less important for investors:

- Workforce
- Transport

Those factors received 15.2 percent answers from the respondents.

The choice of remaining factors looks as follows:

- Support of local government - 12.1 percent
- Ground prices and professional staff - 9.1 percent
- Sources of raw materials - 6,1 percent
- Consumption growth and residents' wealth - 6,0 percent
- Quick settling of formal issues, city public relations, low investment costs - 3,0 percent

Table 46
Is the Respondent Familiar with the Idea of the KAIP Establishing?

Ref.	Description	Percent of indications
1.	yes	87.9
2.	no	12.1
Total		100

A higher percentage - 87.9 percent - of the surveyed investors is familiar with the idea of the establishing of the KAIP while 12.0 percent have never heard about that project.

Table 47
What Effects for the Company Can the Respondent See in the KAIP Establishing?

Ref.	Effects	Percent of indications
1.	Positive	69.7
2.	Negative	9.1

Since not all the respondents answered that question the sum is not 100 percent.

According to the respondents' opinions 69.7 percent of them can see positive effects of the establishing of the KAIP for their companies while 9.1 percent can see negative results.

Table 48
What Positive Effects for the Company Can the Respondent See in the KAIP Establishing?

Ref.	Effects	Percent of indications
1.	Opportunity to sell services	18.2
2.	New contractors	15.2
3.	Economic revival	15.2
4.	Growth of consumption	9.1
5.	Company development	6.1
6.	Professional activation	3.0
7.	Attractive grounds	3.0

Not all the respondents answered the question: “What effects for the company can the examined see in the KAIP establishing?”, and some chose several options so the total sum is not 100 percent.

Among positive effects for the companies resulting from the establishing of the KAIP the increase of opportunities to sell services (products) was mentioned most often. This option received 18.2 percent of the answers given. Other important positive effects are new contractors and economic revival. Both options received 15.2 percent of votes. Among the most seldom mentioned effects for companies were: professional activation and ground attractiveness that got only 3 percent each.

Table 49
What Negative Effects for the Company Can the Respondent See in the KAIP Establishing?

Ref.	Effects	Percent of indications
1.	Competition	3,0
2.	Wrong conception	3,0
3.	Lack of participation from Kutno companies	3,0
4.	Weakening of existing companies	3,0

Total sum of the answers given to that question is not 100 percent either because of a similar situation as in case of a previous question; not all the respondents answered it.

Negative effects for companies resulting from the establishing of the KAIP made up only 12 percent of total answers given with 3 percent given to every option. The respondents decided that the establishing of the KAIP will cause the growth of competition from companies functioning under the Park idea and thus it will weaken the companies that already exist and operate in Kutno (second negative effect specified by the examined). Also a wrong conception of the KAIP idea as well as the lack of participation of Kutno companies in the developing of the project were perceived as negative effects.

Table 50
What Effects for Kutno Community Can the Respondent See in the KAIP Establishing?

Ref.	Effects	Percent of indications
1.	Positive	78,8
2.	Negative	6,1

Since not all the respondents answered the question the total sum is not 100 percent.

Answering the question on the effects for Kutno community the respondents can see in the KAIP establishing 78.8 percent of the respondents perceived positive effects, 6.1 percent negative effects while 15.1 percent did not answer that question. It can be concluded that the respondents do not see any effects for city community or that it is difficult to predict at the stage of KAIP establishing.

Table 51
What Positive Effects for Kutno Community Can the Respondent See in the KAIP Establishing?

Ref.	Effects	Percent
1.	Employment increase (unemployment decrease)	60.6
2.	Consumption growth	27.3
3.	New capital investments	12.1
4.	Development of local companies	9.1
5.	Remaining of young people in the city	3.0

Not all the respondents answered the question: "What effects for Kutno community can the examined see in the KAIP establishing?", and some of them pointed at several options. Therefore, total sum is not 100 percent.

Taking positive effects for Kutno community pointed at by the respondents into account we can notice that the respondents most often pointed at employment increase - 60.6 percent of the answers given.

Much fewer, only 27.3 percent of the respondents pointed at the consumption growth and new capital investments (12.1 percent) that are to be positive effects of the KAIP establishing for the city community. Next number of votes was given to the development of local companies - 9.1 percent.

Fewest (3 percent) respondents pointed to the remaining of young people in the city as the result of the establishing of the KAIP and counteracting their leaving to other centers offering jobs.

Table 52
What Negative Effects for Kutno Community Can the Respondent See in the KAIP Establishing?

Ref.	Effects	Percent
1.	Competition	6.1
2.	Costs incurred by the city	3.0
3.	Environmental pollution	3.0

Total sum of answers to that question is not 100 percent for similar reasons as in the previous question where not all the respondents answered the question.

Among negative effects for Kutno community resulting from the KAIP establishing the respondents pointed at a competition from companies that will start to operate in the KAIP. This option was indicated by 6.1 percent of the respondents. Also high costs incurred by the city for the KAIP establishing and the increase of environmental pollution were recognized by the respondents as negative effects of the KAIP establishing. Those factors received 3 percent of answers each.

Investors Who, According to the Opinions of the Respondents, Can Be Interested in Investing in KAIP Grounds

Table 53
Investors by Company Size

Ref.	Company size	Percent
1.	Medium	63.6
2.	Big	48.5
3.	Small	30.3

Every respondent could choose several options while answering that question. Therefore, the total sum of answers is more than 100 percent.

The respondents decided that mainly medium companies should invest in the KAIP, indicated by 63.6 percent of the answers given. Big companies were pointed at by 48.5 percent of the respondents and small companies by 30.3 percent.

Table 54
Investors by Capital Invested

Ref.	Capital	Percent
1.	Polish	60.6
2.	Foreign	54.5
3.	Joint - venture	45.5

Alike the previous question the respondents could point at more than one option. The sum is, thus, more than 100 percent.

An opinion prevailing among the respondents was that rather companies with Polish capital should invest in the KAIP. What concerns companies with foreign capital and joint-ventures the respondents' preferences were 54.5 and 45.5 percent, respectively.

Table 55
Investors by Industry

Ref.	Industry	Percent of indications
1.	No answer	57.6
2.	Agricultural and food i.	21.2
3.	All	21.2
Total		100

The majority of the respondents (57.6 percent) did not answer the question: “Investors belonging to what industries can be interested in investing in KAIP?”. Yet, 21.2 percent of the respondents pointed at the agricultural and food industry. The same per cent decided that all industries can be interested in it.

Table 56
Does the Respondent Believe in the Success of the KAIP Establishing?

Ref.	Description	Percent of indications
1.	Yes	48.5
2.	Does not know	27.3
3.	No answer	21.2
4.	No	3.0
Total		100

A considerable number of the respondents, i.e., 48.5 percent, believe in the success of the KAIP establishing. Only 3 percent doubt that. It should be noted, however, that 48.5 percent of the respondents have no clear-cut opinions on that subject expressed by answers: “I do not know” or by not answering at all.

Table 57
Why Does the Respondent Believe in the Success of the KAIP Establishing?

Ref.	Reason	Percent of indications
1.	Wise actions of the city	15.2
2.	Attractive area	12.1
3.	Appearing of investors	9.1
4.	High chances	9.1
5.	Infrastructure	6.1
6.	Good ground development	3.0
7.	High human potential	3.0

It was an open question allowing the respondents to answer according to their wills. Because of that some indicated several answers and other did not answer at all so the total percent is not 100 percent.

When answering the question: "Why does the examined believe in the success of the KAIP establishing?", 15.2 percent of the respondents pointed at wise actions of the city and an attractiveness of the area (12.1 percent). Declaring their faith in the establishing of the KAIP project 9.1 percent of the respondents saw high chances of the success of this idea.

A more seldom reason of the respondents' belief in the KAIP establishing was infrastructure (6.1 percent), high human potential and good ground development - both options received 3 percent of answers.

Table 58
Why Does the Respondent Not Believe in the Success of the KAIP Establishing?

Ref.	Reason	Percent of indications
1.	Unfeasible conception	3.0
2.	Lack of tax and investment allowances	3.0
3.	Lack of academic centers	3.0
4.	Competition from other cities	3.0

A situation in case of this question was similar to the previous one. Not all the respondents answered it which excludes obtaining of total sum of 100 percent.

The respondents that do not believe in the success of the KAIP establishing pointed at unfeasible conception and competition from other cities and similar parks or economic zones as the reasons of their disbelief.

Moreover, the respondents think that the lack of academic centers in Kutno educating potential managerial staff may be the reason of a failure in the KAIP establishing. The last reason of the disbelief of the respondents in the success of the KAIP establishing was the lack of tax and investment allowances. Each option received 3 percent of the answers.

Table 59
Is the Respondent Willing to Help in the Development of the KAIP Project?

Ref.	Description	Percent of indications
1.	Yes	60.6
2.	No answer	30.3
3.	No	9.1
	Total	100

60.6 percent of all the respondents expressed their willingness to assist in the developing of the KAIP project. Only 9.1 percent of the respondents was negative about that. 30.3 percent of the respondents did not answer this question.

The following tables show the structure of the respondents, their age, size and legal form of companies they represent.

Table 60
Who Does the Respondent Represent?

Ref.	Description	Percent of indications
1.	Owner	42.4
2.	Other	36.4
3.	Member of the Board of Directors	18.2
4.	No answer	3.0
	Total	100

Table 61
The Age of the Respondent

Ref.	Age	Percent of indications
1.	36 - 45 years of age	42.4
2.	46 - 55 years of age	39.4
3.	21 - 35 years of age	9.1
4.	56 - 65 years of age	6.1
5.	No answer	3.0
	Total	100

Table 62
Size of the Company the Respondent Represents

Ref.	Description	Percent of indications
1.	51 - 200 employees	36.4
2.	11 - 50 employees	30.3
3.	Do 10 employees	15.2
4.	201 - 500 employees	9.1
5.	Over 500 employees	6.1
6.	No answer	3.0
	Total	100

Table 63
Legal Form of the Company the Respondent Represents

Ref.	Legal form	Percent of indications
1.	Partnership	27.3
2.	Limited company	24.2
3.	Joint-stock company	24.2
4.	Registered in the Register of businesses	18.2
5.	Other	3.0
6.	No answer	3.0
	Total	100



THE ANALYSIS OF THE SURVEYS OF AN EXISTING ECONOMIC SECTOR

Agencja Rozwoju Regionu Kutnowskiego (Kutno Region Development Agency) carried out interviews with the biggest Kutno companies in order to obtain information on those companies, directions of their development, what methods of attracting new investors they can see and, thus, the development of the region and the improvement of its attractiveness.

The surveys showed that Kutno enterprises purchase materials and raw materials depending on their business activities.

Raw materials and products purchased most often include:

- Fuels
- Fertilizers, seeds
- Metallurgical materials (castings, alloys, iron)
- Food products
- Some building materials (wooden windows, partition systems)

Those are Polish products, yet Kutno enterprises are more and more willing to cooperate with foreign companies.

The majority of the enterprises have their own vehicles sizes of which depend on the type of material transported.

Taking into account the type of Kutno enterprises transport is performed by use of big trucks. Vehicles leased are mainly tank trucks for the transport of fuel.

The majority of Kutno enterprises ceased to transport products by Polish Railways (PKP). Yet, most of them have railway sidings that were used in previous years.

A considerable number of enterprises plan to carry out certain changes in their activities.

These changes relate, first of all, to:

- The development of the company within the existing site
- Extending marketing networks

Investors do not express specific problems resulting from their companies location in the city of Kutno.

Their dissatisfaction results, however, from the condition of access roads to their companies. Such a situation has been pointed at by the companies located in the city suburbs or industrial districts where road condition is unsatisfactory.

What regards type of companies to be located in Kutno, the investors express the highest demand for companies of agricultural and food industry with high capital and production that might use raw materials and human potential existing in Kutno.

Much lower demand is there for electronic industry, services and dispatching firms.

Due to the attractive location of railway and road connections as well as a central position in the country, possibilities to offer attractive grounds and workforce not fully used Kutno is, according to the respondents, a very interesting place for investments.

Kutno investors express, however, a high demand for qualified specialists mainly in computer science and marketing.

Only few investors think that Kutno does not stand out in comparison with other similar cities.

The majority of the respondents think that living standards of Kutno improve gradually, yet at a very slow pace (e.g., education, sport events). Yet, according to the respondents there is plenty of room for actions in environmental protection, health care, culture and recreation. The interviews conducted show that many companies use assistance of, e.g., country-wide assistance programs, training's abroad, support of the city and the Kutno Region Development Agency.

The investors think that there is still lack of advertising and promotion of the local market in media or information about domestic manufacturers and commercial outlets.

SUMMARY

The views of the local authorities and foreign investors on own their activities differ considerably, especially in regard to the activity of the local authorities.

From the surveys carried out it turns out that the foreign investors face many difficulties resulting from running business activity in the local environment.

The most important barriers include:

- The lack of good technical and organizational conditions for starting up business activity
- Too long time of preparing company documents and registration
- Problems related to obtaining local authorities' permit to start business activity

The majority of barriers mentioned by the foreign managers are objective. They are following (weakness of market infrastructure: banks, communication, transport - that requires modernization, limited purchasing capacity of the community, the lack of professional workforce prepared to new technological and organizational requirements). Often, their removal goes, yet, beyond the local possibilities.

The survey reveals also the occurrence of subjective barriers. A considerable number of the foreign investors state that the local authorities do nothing to simplify their entering the Polish market. The managers complain about the reluctance of the local authorities towards foreign investments and an unfriendly attitude of people towards foreign capital.

It turns out of the survey that the foreign investors starting activity in Poland must contact too many institutions and submit too many complicated documents. During that process they do not get precise information and explanations from the state administration. This creates an impression that existing mechanisms that coordinate actions of various levels of central and local administrations do not work effectively. That makes up serious barriers and discourages the foreign investors from investing capital in Poland.

Therefore, the foreign investors point at a necessity to develop a conception and implement a coherent information system of foreign investments.

According to general opinions there is a poor promotion of Poland as a market for foreign investments. A considerable number of the foreign investors obtain information on a local market from individuals who are company partners or from families in Poland. A small number of the managers point also at organized sources of promotional information: offers, brochures and information materials prepared by the local authorities.

Therefore, the development by the local authorities of an information system about possibilities and preferences of investing in Poland is indispensable, and especially preparation of various brochures, promotional leaflets informing about investment grounds in Poland.

A considerable number of the foreign investors can feel the lack of firms informing about economic partners and information about Polish economy and the local environment.

The results obtained show a necessity for an active promotion of regions and cities/towns as local foreign investment markets in Poland. First of all, strategic assumptions

of promotional activity should be developed that would specify its objectives, directions and means and forms adjusted to local requirements and foreign investors' expectations.

Most important changes suggested by both the foreign investors and local authorities are as follows:

- Simplification and debureaucratization of formalities
- improvement of information flow in both directions
- improvement of qualifications of personnel of the firms that provide services to companies with foreign capital

On the basis of this data it may be concluded that it is indispensable to continue processes of adjusting Polish legislation to legal rules in force in GATT and to the legal infrastructure of the European Union. Polish legal acts, despite amendments introduced to many laws, the liberalization of law and other regulations, still differ from world standards in force.

As it results from the surveys performed among the investors located in Kutno the difficulties resulting from running business activities in Poland are as follows:

- High taxes
- Changeability of regulations
- High inflation
- Bureaucracy
- An inflexible banking system

As it turns out from the opinions gathered mainly medium-size private companies with Polish or foreign capital should invest in the grounds of the KAIP.

Local investors can see many positive effects for their companies resulting from the establishing of the KAIP. They are following:

- Possibility to sell products manufactured
- Economic revival
- Consumption growth

And, as a result of the KAIP establishing, the community will get new jobs and an opportunity to improve living standards.

Kutno investors that have been operating in this area for a long time can also see the weakness of the city and region promotion in media. Only few think that Kutno is not special in any respect and there is nothing to be proud of. Yet, a good majority can notice assets and strong points of the city that should be stressed in promotional actions.



It turns out from the surveys performed that the investors take costs of running business into consideration when deciding on starting business. Kutno is an attractive city for investments since those costs are lower than in other big cities like Warsaw.

Therefore prices of components influencing company costs should be kept on a relatively low level, which will definitely influence the growth of interest in the investors' market in Kutno.

CHAPTER 7

IDENTIFICATION OF INVESTORS

DIRECTIONS OF SEEKING FOREIGN INVESTORS

The following facts influence the directions of seeking foreign investors:

- ! High rate of foreign investments' growth in Poland.

Analyses show an increasing rate of growth of foreign investments.

As far as this is concerned, Poland takes a second place among Central and East European countries (US\$ 12,027.7 million in 1996 - foreign investments exceeding US\$ 1 million). Yet, according to forecasts the value of foreign investments in Poland in the years 1996 - 2000 will reach US\$ 21.969 million. That shifts Poland to the first place among Central and East European countries, before the Czech Republic (US\$ 15,466 million) and Hungary (US\$ 12,968 million).

Germany, USA, Holland, France, Italy and Sweden play most important role among foreign investors

- ! Among 492 investors representing 28 countries Germans make up the biggest group as far as the number of companies is concerned, since they have 113 companies (US\$ 1,524.4 million of capital invested).

Yet, taking into account the value of capital invested the U.S. are the leader, since their capital investments in Poland amount to US\$ 2,965.6 million.

Italy - US\$ 1,223.8 million, Holland - US\$ 951.7 million and France - US\$ 899.9 million take next places.

Another important economic partner of Poland is Sweden with investments in Poland amounting to US\$ 361.3 million in 1996. At that time there were 30 companies with Swedish capital on the Polish market.

At the moment, import from Sweden to Poland that equals 2.7 percent grows and is higher from export (2.4 percent). Thus, quick and good learning of Polish regulations by Swedish businessmen is very important, since Poland is interested in cooperation and the highest quality of imported products.

The analysis performed by the Polska Agencja Inwestycji Zagranicznych - PAIZ (Polish Agency for Foreign Investments) stresses that over 75 percent of foreign

capital at the end of 1996 originated from Germany, USA, Holland, France and Italy.

! Poland is an attractive country for investing because of:

- Low labor costs
- Possibility to access the EU markets
- The use of a market niche
- An access to Russian market

Jermyn Brooks, the President of Price Waterhouse (belonging to the Big Six of consulting firms world-wide), estimates that during next five years the competitive cost of labor will be the advantage of Poland. It is still considerably low not only in comparison to Western Europe and the U.S. but also to the Czech Republic and Hungary.

Therefore, Poland will be able to compete most effectively in industries requiring an intensive use of workforce in the nearest future.

One working hour in Polish industry costs ten times less than in Germany - as results from the analysis of the Instytut Badań nad Gospodarką Rynkową - IBGR (Research Institute for Market Economy).

Among the emerging markets of Central and East Europe Poland becomes more and more important. With Poland opening to Western Europe political, ideological and economic barriers will be overcome and new cooperation possibilities will be discovered at the same time.

! Germany is the biggest trade partner of Poland. Poland expects the enhancement of the technical level of the national economy and the inflow of modern technology as the results of trade with Germany. Germans perceive Poland as an important market and a bridge to the Russian market and markets of the countries belonging formerly to the USSR.

The majority - 66 percent - of German companies located on the Polish market are companies with 100 percent German capital. 25 percent are joint-ventures with major German share, while only 9 percent are joint-ventures with minor German capital.

! Germany and Russia have biggest shares in Polish export.

Germany share in export was 33.7 percent in 1996 while 23.6 percent in import. The value of export to Germany was 6,115.9 million zloty (growth by 12.8 percent

in comparison with 1995). A growth was also observed in import - by 33.5 percent, reaching the value of 6,797.1 million zloty.

Trade turnover with Russia increases considerably, especially on import side (2,099.0 million zloty). Export value was 1,277.7 million zloty (US\$ 424.7 million). Goods that were exported mainly belonged to the group: food and livestock - their share in total export to Russia was 40.4 percent.

- ! The EU countries (including Germany) show more and more extensive economic cooperation with Russia. Thus transport has a crucial meaning.
- ! Investment attractiveness of Kutno bases, first of all, on the following facts:
 - A central position of Kutno in Poland
 - Location at the A-2 Berlin-Moscow route
 - Although a new east-west superhighway will go around Kutno (towards Stryków-Łódź), yet the process of developing and building of the superhighway will take many years
 - A planned route of the north-south superhighway through Kutno and a present closeness of the A-1 Road - this may be of a great importance to the Scandinavian countries
 - An important rail junction and the east-west railway main line.
- ! Kutno has been chosen to participate in the Pilot LGPP carried out by USAID, which may increase the attractiveness of the city to American investors.

Taking the above mentioned facts into account, looking for foreign investors should focus on the following countries: Germany, USA, Holland and Sweden.

GERMANY AS A POTENTIAL INVESTOR IN POLAND

German Capital Investments in Poland

Every year trade turnover grows between Poland and Germany. Trade turnover between both countries grew from DM 14.5 billion in 1990 to more than DM 25 billion in 1996. Thus Poland overtook Russia and became the most important partner of Germany in Central

and Eastern Europe. The Federal Republic of Germany became, on the other hand, the most important trade partner of Poland. Over one third of Polish export goes to German customers.

All forecasts indicate a further positive development towards the growth of productivity of Polish economy. This development is supported by a constant inflow of direct foreign investments that increased considerably last year. German investors belong to leaders in that area and have a considerable share in the process of building, restructuring and privatization of Polish economy.

As it turns out from the list published by the PAIZ (Polish Agency for Foreign Investment) Germans are the most important trade partners of Poland. From 492 foreign investors in Poland by the end of 1996 113 were German companies that had invested US\$ 1,524.4 million.

Food industry is very popular among German investors and in which Germans invested US\$ 124.8 million in it in 1996.

German companies are also interested in tobacco industry in which they invested about US\$ 228.5 million and banking - US\$ 271.3 million.

Germans participate to the highest extent in the privatization process. From 146 companies purchased by foreign investors in 1996 28 were acquired by German owners.

An so for example Reemtsma, a German company, has participated in the privatization of Polish tobacco plants acquiring US\$ 130 million worth of shares in Poznańska Fabryka Tytoniu (Poznań Tobacco Factory) while Dyckerhoff has 60 percent of shares in Sitkówka cement plant and 33 percent in Maogoszcz cement plant.

Barriers hindering a faster inflow of huge German investments are mainly:

- Changeable tax regulations
- Changeable customs regulations
- Bureaucratic accounting methods
- Burdensome custom clearance at border checkpoints
- Insufficient promotion of Polish economy
- Unpredictable changes in currency exchange rates

Over 90 percent of entrepreneurs admit that the knowledge of Polish language and Polish mentality is one of the conditions of successful business. Managerial functions are given over to Poles mainly technical area, technology and sale. Company management in Poland is, most often, given over to Germans by company owners. According to German entrepreneurs Polish managerial staff takes care of the increase of sales and earnings insufficiently.



Benefits for German companies resulting from locating investments in Poland are:

- Low labor costs
- Possibility to purchase means of production cheaply
- Opportunity to enter new Mediterranean markets



Table 64
List of German Investors in Poland

Place on PAIZ list	Investor	Industry	Capital investments (in \$ million)	Liabilities (in \$ million)	Main partner
1	2	3	4	5	6
15	Reemtsma Cigaretten-Fabriken GmbH	Tobacco industry	130.0	45.0	33 percent shares in WWT Poznań with an option for acquiring next 32 percent
23	Dyckerhoff	Tobacco industry	98.5	230.0	60 percent shares in Sitkowska cement plant and 33 percent in Magoszcz cement plant
24	Passauer Neue Presse	Press	98.0	0.0	Shares in all Polish regional dailies
32	Siemens	Telecommunications	67.5	60.0	ZWUT Warsaw (99 percent), I- Cebter Warsaw, BSH od Elektrosystemy od -VW
37	Roeben Tonbaustoffe	Building materials	56.0	0.0	A plant in Podań
39	Commerzbank	Banking	55.0	0.0	21 percent of shares in BRE S.A.
42	Continental Can Europe (Filiale Schmalbach - Lubeca)	Packages	53.0	14.0	A plant in Radomsk
44	BTS Baukeramik	Brick-yard	51.6	0.0	CERKOP company - 100 percent shares
49	Sud Wolle AG	Textile industry	50.0	0.0	Weaving plant in od -
59	Schöller	Food industry	43.0	0.0	Ice-cream manufacturing plant in Namysów
61	Neoplan	Bus assembly	41.2	51.0	Neoplan Polska Sp z o.o. Bolechowo (Ltd.)
64	Tchibo	Food industry	40.0	0.0	Tchibo Warszawa Sp. z o.o. (Ltd.)

Table 64 (Continued)

Place on PAIZ list	Investor	Industry	Capital investments (in \$ million)	Liabilities (in \$ million)	Main partner
1	2	3	4	5	6
76	DeTeMobil	Telecommunications	29.0	0.0	Polska Telefonia Cyfrowa (22.5 percent) (Polish Digital Telecommunication)
78	Westdeutsche Landesbank	Banking	26.5	0.0	WestLB Polska S.A. (J-S company)
79	Bayerische	Banking	25.5	0.0	Megabank (100 percent), Vereinsbank Polska S.A. (J-S Company)
83	Stollwerck AG	Chocolate production	25.0	25.0	Plant in Jankowice / Poznań
88	Deutsche Bank AG	Banking	24.5	0.0	A bank in Poland
90	Linde AG	Technical gases	23.0	33.0	Polgaz Mielec and Pszczyna (70 percent shares)
114	Bahlisen	Food industry	16.8	11.0	Koncentraty Spółdzielcze Skawina (80 percent), Rex-Pol Oawa
122	Dresdner Bank	Banking	15.0	0.0	Joint venture with Banque National de Paris

Source: The list of biggest German investors in Poland in 1997.

German Economy

The growth of German investments in Poland results from the fact that there have been problems with establishing of new small and medium companies in Germany for some time now. This mainly results from growing costs, low incomes and higher and higher taxes and labor costs as well as low competitiveness. Dissatisfaction with economic situation has been growing in Germany. 26 percent of the surveyed assessed it as bad and in processing industry - 33 percent of German entrepreneurs.

As a result more and more German companies move abroad and about 25 percent of them move to Central and Eastern Europe.

The disappearance of private owners' readiness to take over companies is a really weak point of German economy. About 700,000 small and medium enterprises including 200,000 craftsman's shops will be given over the next ten years. About 300,000 companies employing four million people will face that by the year 2000.

Due to a necessity of establishing of small German businesses employing about 50 people and to favorable conditions in Poland for establishing such forms of economic activity it is estimated that there will be more and more German companies in Poland that will contribute to the improvement of economic situation of our country as well as partner relationships.

It was difficult for small and medium German enterprises operating on an international market to apply individually for optimum insurances abroad. They must often overcome language barriers or ignorance of foreign reality as well as difficulties related to payments for damages.

FAZ dated 12 November 1996 announced that new insurance conception, at first limited to the territory of Europe, is to help small businesses. Local policies are planned to be combined in one international offer of insurance services. An entrepreneur abroad will not have to take care of various conceptions of civil liability and pay insurance liabilities any more. Damages will be taken care of in a country where they occur.

German investments in Poland awake some concerns among German community. They are mainly caused by the decrease of employment in Germany.

Yet, according to a survey performed by the Polish-German Society for Support of Economy 70 percent of the owners of 103 companies that employ 148,000 of Germans and 11,000 of Poles declare their will to extend their activities. At the same time 80 percent of all the respondents stated that their engagements in Poland did not cause the liquidation of jobs in Germany.

Almost 60 percent of the respondents want to generate new jobs over the next five years

According to many investors the enterprises facing strong international competition must invest in more favorable, as far as costs are concerned, eastern countries and thus secure jobs in Germany.

What is more, the survey carried out shows that only one third of 3000 newly generated jobs meant a real loss of jobs in Germany, since the majority of jobs were generated from scratch. It was possible to offer more competitive prices as the result of combined calculation of production in Germany and Poland. Therefore, it is possible to try to enter new Mediterranean markets, which was impossible before.

Assistance German Investors Can Obtain from Support Organizations and Institutions

The Federal Government supports Polish efforts to join the EC. It also supports the process of reforms in Poland as well as the development of trade and cooperation between both countries by means of various undertakings and a number of instruments, for example by creating effective institutions of economic partnership, allowing access to financial tracks, especially for medium-size enterprises and government guarantees.

The Federal Government and the Embassy of the Federal Republic of Germany support also Polish-German cooperation on a political level and they assist German companies in solving difficult problems.

By the initiative of German and Polish governments many organizations and support programs have been started with the goal of providing financial and advisory help to Polish and German investors.

The following programs belong to the most important programs providing financial support

Guarantees for capital deposits (Gwarancje dla lokat kapitałowych). Its purpose is to support the engagement of German entrepreneurs in Poland by protecting them against political risk.

Guarantees protect shares and capitals of German subsidiaries in Poland.

The main services provided by Guarantees are as follows:

- Treatment equal to that of domestic enterprises and with the most-favored-nation clause
- Protection against expropriation and ensuring compensation equivalent to the value of loss incurred
- Guarantee of free capital and profit transfer
- Access to international arbitration boards

Since 1991 the Federal Government has taken over almost 100 guarantees for German investments to the total amount of DM 500 million.

Limitations regarding a guaranteed amount do not exist. Income from shares and share-like loans can be guaranteed. Only capital investments not started yet can be covered by the guarantee but not existing ones or construction in progress. The maturity period is usually 15 years and can be prolonged for the next 5 years.

Financing by DEG (Deutsche Investitions-und Entwicklungsgesellschaft mbH) which is a state-owned financing and consulting institute for private economy in developing and reforming countries. That means that DEG finances capital investments in Central and East European countries that can ensure stable overall political and economic conditions, e.g., in Poland.

In Central and Eastern Europe DEG finances joint-ventures of Polish and German companies and branches of German enterprises. At the same time it does not matter at all, whether a given case relates to a newly-established enterprise or the extension of an existing one.

By 30 September 1996 DEG had extended loans of the total value exceeding DM 80 million for activities in Poland. Beside the financing of the investments of German entrepreneurs in Poland and one capital joint-venture company DEG acquired capital stocks of Polski Bank Rozwoju. Moreover, the Bank was extended a loan of DM 15 million earmarked for financing the capital investments of Polish entrepreneurs, as well.

KFW Foreign Program for Medium State (Program Zagraniczny KFW dla Stanu Średniego) concerns long-term financing for German investments abroad on preferential conditions.

In 1993 - 1996 92 loans of the total value of DM 121 million were extended for capital investments in Poland. Investors originated mainly from chemical, paper, publishing, printing, glass-making, pottery, rubber and plastics industries. Poland is the second country under the Program, after the Czech Republic, as far as the value of loans extended is concerned.

The Program is for small and medium German companies, their foreign subsidiaries, e.g., joint-ventures with German capital and for the professions.

Enterprises that apply for KFW financing can profit from a number of benefits:

- A favorable fixed interest rate, 10- or 20-year maturities of loans
- 2- or 3-year grace periods for borrowers

Programs Providing Advisory Assistance

TRANSFORM Economic Consulting Program created by the Federal Government supports 11 Central and East European countries advanced in transformation processes and former Soviet Union states in transition from a planned to a market economy. It is a special support for the establishing and extending of effective institutions as well as of strong medium-size enterprises of the economy.

Poland is the second country after the Russian Federation absorbing most funds under the TRANSFORM Consulting Program. Between 1990 and 1996 the total value of projects implemented was DM 180 million.

With help of the Polish government regions and sectors eligible to special support were selected. Thus, consulting could be most effective.

Over 50 percent of those funds were allocated to the following projects in medium-size ventures:

- ! Consulting for small and medium enterprises.
- ! Establishing of institutions supporting the development of small and medium enterprises (e.g., Agencies for Regional Development, partnerships of Chambers of Industry and Commerce and Chambers of Crafts, Polish-German Society for Economic Support).
- ! Training of professional and managerial staff in economy (e.g., a Model Professional Training Center /Modelowe Centrum Szkolenia Zawodowego/ in Łódź, West-Pomerania Business School /Zachodnio-Pomorska Szkoła Businessu/ in Szczecin, Banking Academy /Akademia Bankowa/ in Gdańsk).
- ! Employment and social policies (e.g., establishing of the Professional Information Centers/Centra Informacji Zawodowej/ in Toruń, Gdańsk and Warsaw).
- ! Agricultural sector (e.g., training courses in farming in Brwinów Training Center).

Entrepreneurs are advised directly under the Integrated Consulting Services for the Promotion of Private Economy in the Republic of Poland (Zintegrowane Doradztwo na rzecz Promocji Gospodarki Prywatnej w RP). This program is focused, first of all, on smaller businesses of various industries. German advisors from various fields with broad knowledge take efforts together with Polish partners to improve competitiveness of developing Polish enterprises. Preparations to participate in German fairs help this purpose, too.

Since 1995, German experts together with Polish experts provide consulting for selected industries. They help to find sources of financing and German partners.

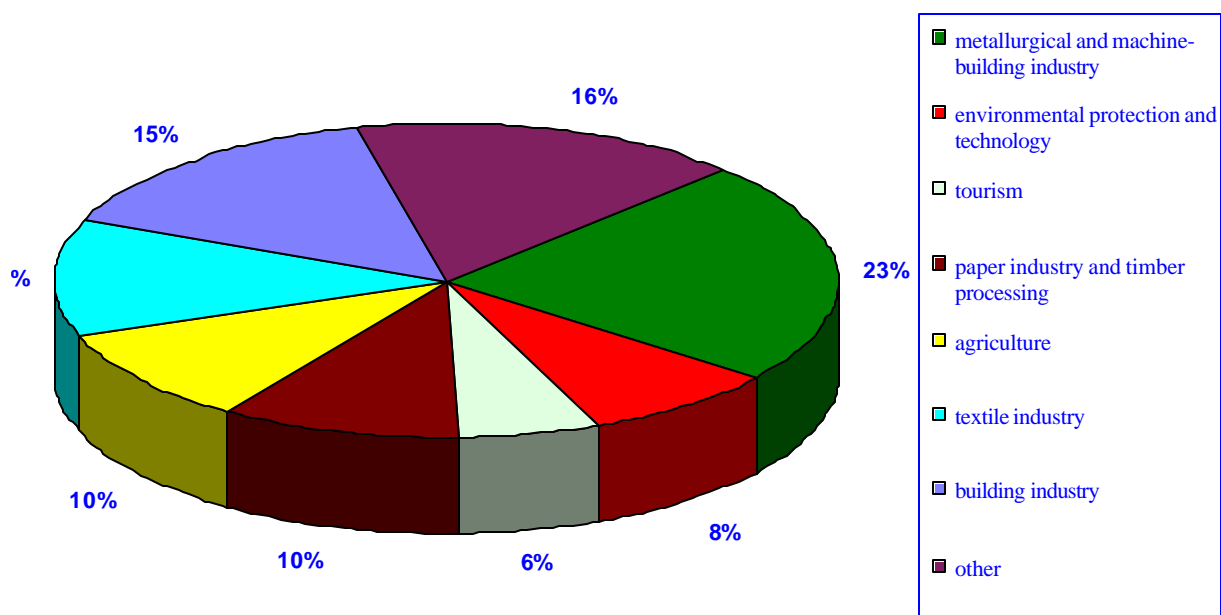
Polsko-Niemieckie Towarzystwo Wspierania Gospodarki (Polish-German Society for Support of Economy) was established as a joint-stock company based on Polish law with a seat in Gorzów Wielkopolski on 2 March 1994. The Society purpose is to support Polish-German cooperation in the border area. Thus, it helps to start economic contacts and looks after investors from the moment of the establishing of a company in the border area until the start-up of production.

The Society offers, usually free-of-charge, the following services to German and Polish companies looking for advice:

- ! Support and care concerning specific cooperation and investment projects on both sides of the Polish-German border.
- ! Extensive consulting on the conditions of the investment market before the start-up of business activity.
- ! Developing of economic data and information on investment conditions as a base for providing accurate and professional consulting and agency services.
- ! Organizing of cooperation exchanges, exhibitions and training and information seminars for entrepreneurs and other managers.

At the moment the Society looks after about 260 Polish and German projects and the next 60 projects are being prepared.

Diagram 5
Demand for Support of the Society for Economic Support Is Broken Down by Industry



Polish-German Chamber of Industry and Commerce (PGCIC) established in September 1994. The purpose of PGCIC is to support bilateral economic relations of Poland and Germany by establishing contacts between the enterprises of both countries.

The Chamber offers a broad range of financial services based on the following:

- Subsidies from the budget of the Federal Ministry of Economy
- Members' fees
- Charges for services provided

The PGCIC offers a variety of services:

- Advisory services on investments, market and marketing by providing, for example, addresses and help in starting new contacts
- Assistance in negotiations
- Organizing sessions, seminars and lectures
- Expert advisory services for new German lands and for crafts
- Publishing of a Polish-German Chamber newspaper "Wiadomości Gospodarcze" (Economic News) with advertisements

- Interpreting and translating services
- Providing information about labor markets and about fairs

The PGCIC provides the following services concerning taxes, legal and customs regulations:

- General advice, help in establishing enterprises
- Forms of agreements, information about taxes and customs regulations
- Publications and leaflets on given subjects

Seminars on foreign trade - their purpose is to extend and improve foreign trade contacts with chosen countries and regions.

Small and medium enterprises are, thus, given opportunities of starting trade contacts and cooperation, which will help them to prepare a basis for their participation in an international division of labor. Specific topics of those seminars depend on Polish demand.

The most important problems entrepreneurs focus on at workshops and meetings include:

- ! Information on conditions on a given market, transfer of modern marketing methods related to export, consulting on indispensable changes adjusting Polish products to German and European markets as well as information on standards and other requirements goods and services exported from Poland must face.
- ! 21 such meetings were organized between 1990 and 1996 to the total amount of DM 500,000.

Federalne Biuro Informacji Handlu Zagranicznego (Federal Foreign Trade Information Office), supports the development of commerce and cooperation with Polish enterprises by use of up-to-date and reliable information on all important aspects of economic relations with Poland.

German enterprises can obtain reliable information on trade with Poland and investments in Poland from the head office in Berlin. Beside information service the Office offers over 60 publications. They include a variety of information: from contact addresses, through economic data updated twice a year to information on various foreign trade projects, legal and customs guidelines and market analyses.

Polish companies can also use Office services. They can get free-of-charge economic information about Germany as well as current economic data and contact addresses. At

present over 45 analyses on industries and products in Germany are available. Polish enterprises can place their advertisements in the Office publications, also free-of-charge.

KFW Consulting Center (Centrum Doradztwa KFW), which purpose is to provide advice to companies in Central and Eastern Europe.

The KFW acts also agent in starting new contacts and looking for partners who are able to facilitate the implementation of projects in Poland or Germany. The KFW cooperates closely with governmental agencies and economic institutions of both Poland and Germany. Together with those bodies the KFW organizes various events in both countries aimed at providing extensive information on financing and supporting possibilities.

Over 500 entrepreneurs from Central and East European countries got free service last year.

Fundacja Współpracy Polsko-Niemieckiej (Polish-German Cooperation Foundation) was established in November 1989. For five years the Foundation has supported about 1500 joint projects that have been of interest to both parties. Mainly social, charity and cultural projects are supported.

The Foundation provides funding especially to:

- Exchange of the youth and building of places for meetings of the youth
- Environmental protection, transport and telecommunication development as well as other infrastructure development
- Training of professional staff for economy
- Establishing and managing cultural institutes and joint research projects
- German language courses and courses on German culture run in Poland
- Restoration and maintenance of the monuments of culture of a historical value to Europe
- Founding, extending and maintaining of memorial places
- church, charity and social institutions

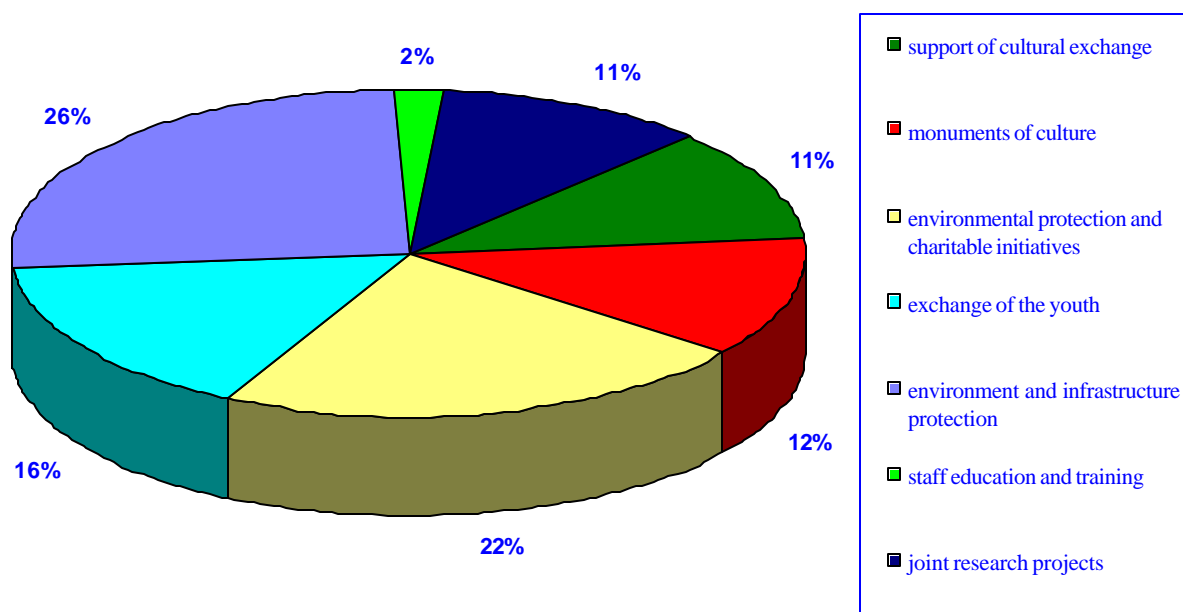
About 2950 applications have been submitted to the Foundation and 1540 have been considered positively.

DM 52.9 million had been assigned to projects related to environmentalism, water protection, infrastructure and telecommunication in Poland until September 1996. A major part of this amount has been invested in water supply improvement. The biggest project in that area is a DM 2.2 million project of building of a wastewater treatment plant in Racibórz.



Diagram 6
Applications for Subsidies Considered Positively in 1995

Total amount of subsidies granted - 100 percent



U.S. ENTERPRISES AS POTENTIAL KAIP INVESTORS

The value of capital engaged in Poland (by companies investing over US\$ 1 million) exceeds at the moment the value of investments of other investors from individual countries. In total 77 U.S. companies operate in Poland where they have invested US\$ 2,965.6 million.

The U.S. take also an active part in the privatization process - 13 state-owned enterprises taken over in 1996.

At present the International Paper Corporation with US\$ 341 million of investments in Zakłady Celulozowo-Papiernicze in Kwidzyn (Cellulose and Paper Works) is the biggest foreign investor in Poland. Polish-American Business Fund (Polsko-Amerykański Fundusz Przedsiębiorczości) comes in second with the investments amounting to US\$ 316 million.

According to the data available to the American Chamber of Commerce U.S. companies have invested in over 50 various business activities.

Most companies have engaged in:

- Computer services (11)
- Banking sector (10)

Next places are taken by the investments connected with:

- Power industry (9)
- advertising (9)
- Transport (8)
- Food processing (7)
- Real estate market (7)
- Legal services (7)
- Accounting (6)
- Finance (6)

The biggest U.S. investments have been made in food industry. Beside Coca-Cola important investments in this industry have been made by Epstein, Pepsico, Gerber, CPC Int., Basic American Foods, Chicago/Europe Partners, Leaf Group and the whole range of other companies. According to the estimates of the U.S. Foreign Commercial Service 25 - 30 percent of total U.S. investments in Poland have related to that industry.

The continuation of the economic growth of Poland in connection with the economic revival of the U.S. make up two key factors influencing an observed present growth of interest in Poland among the U.S. investors. Polish consular officials in the U.S. note an increase of enquiries about both the possibilities of import of a vast range of industrial products from Poland and cooperation with Polish partners and establishing joint-ventures. Smaller investors are interested in the production of consumers' goods, industrial products and in computer industry.

Programs That Can Be Helpful in Seeking a U.S. Partner

Support Program for Polish Importers (Program Pomocy Polskim Importerom-PPPI) of the U.S. Department of Commerce facilitates contacts with product suppliers from the U.S.

The Support Program is directed to Polish companies which:

- Look for suppliers of specific products on the American market
- Are interested in establishing representative offices of American companies on the Polish market
- Look for American partners for joint investments or joint-ventures

— Are interested in the purchase of licenses from American partners

Polish-American Business Fund (Polsko - Amerykański Fundusz Przedsiębiorczości) was established in 1989. The purpose of the Fund is to support the developing Polish private sector.

The Fund extends guarantees, loans and provides technical assistance to small and medium Polish enterprises, farm enterprises and Polish-American companies with foreign capital.

U.S. Department of Commerce assists American exporters in running business in Poland.

Overseas Private Investment Corporation (Zamorska Prywatna Korporacja Inwestycyjna) is a U.S. government agency which has information on investments in Poland and on funding and insuring against investment risk by American companies that invest in developing countries including Poland.

U.S. Agency of Commerce and Development (Amerykańska Agencja Handlu i Rozwoju), which supports American export by providing assistance to developing countries including Poland. That assistance consists in funding feasibility studies, developing training services and courses.

Information on the U.S. Investments in Poland and Trade Contacts Can Be Obtained From:

Commercial Information Management System of the U.S. Department of Commerce (CIMS). CIMS is a database of companies that look for American partners, customers for their products and other trade contacts with the U.S. companies.

The U.S. Department of Commerce and its local branches in the U.S. and overseas commercial offices make CIMS data available to the U.S. companies interested in contacts/investments on the overseas markets.

UNIDO (United Nations Industrial Development Organization) - Industrial and Investment Cooperation Office. The purpose of the Office is to promote both all types of cooperation of Polish enterprises with partners from developing countries and Polish investment projects which implementation requires foreign capital.

The Office basic activity is to:

- ! Gather and register information on potential partners; both Polish partners interested in investments in the developing countries and foreign partners interested in investments in Poland.
- ! Identify and promote industrial projects in the developing countries.
- ! Identify and promote Polish investment projects (i.e., Database).
- ! Take all initiatives and actions to facilitate and support the performing of the above mentioned tasks.

DUTCH COMPANIES AS POTENTIAL KAIP INVESTORS

Dutch companies invested over US\$ 1 billion in Poland in 1996. The investments include 33 companies with the share of over US\$ 1 million. There are 10 Dutch privatized companies in Poland.

Investments of three giants - ING Group, SHV Macro NV and Philips - make up three fourth of Dutch capital that have inflown to Poland after 1990.

ING Group has invested about US\$ 350 million in Poland and plans to spend additional US\$ 53 million. That Group operates mainly in banking, insurance business, leasing services and real estate business. Beside 54 percent of shares of Bank *ĐI•ski* the Dutch have acquired 10 percent of shares of Bank *Przemys»owo-Handlowy*. *Nationale Nederlanden* that belongs to ING Group becomes more and more visible on the Polish insurance market. So far, *Nationale Nederlanden* has managed to win about 25 percent of the life insurance market.

Over US\$ 114 million have been invested by SHV Macro NV in Poland. This name represents Macro Cash & Carry wholesale network very well known to small retailers. So far, ten huge wholesale warehouses have been opened.

The Dutch-Polish Chamber of Economy has been established to support Polish cooperation with Dutch companies.

Holland is one of the strategic trade and investment partners of Poland. Outlays of Dutch investors have increased over five times since 1993; from US\$ 240 million to over US\$ 1,260 billion at the end of 1996.

The goal of the Chamber established is to provide financial support to both Polish and Dutch companies as well as to extend cooperation related to power industry and to solve problems connected with export to CEFTA and UE countries that Dutch companies have contended with for several years.

Yet that barrier has not created any problems to Dutch companies since 1 July 1996, when an agreement came into force allowing companies running business in Poland to export products to countries worldwide with no restrictions from Polish authorities by the use of the so called clause of product origin.

PREFERRED FORMS OF ECONOMIC ACTIVITY IN THE KAIP

Based on the analysis so far and the conception of the KAIP, potential investors should be sought in small and medium business sector.

The following arguments justify this:

- ! Small and medium enterprises develop more dynamically, since they can quickly adjust to an ever-changing market and are characterized by high innovative ability and flexibility.
- ! Investment process is characterized by a fairly long preparation period. Development tendencies of free-market economy are based on small and medium enterprises.
- ! The larger an undertaking, the more complicated procedures prior to investments.
- ! An investor considers a few offers and negotiates with a few contractors during the investment process. That means only some of investment negotiations can succeed. Dependence on a big investor is connected with a higher risk resulting from a higher probability of the negative result of negotiations (a different offer chosen).
- ! A big investor is very often interested in the high absorptive capacity of the local market and consumption level that Kutno region cannot guarantee.
- ! Big investments usually use modern high-tech technologies that require highly skilled staff and, yet, offer few jobs.

- ! Big investments require often high capital expenditures. Thus, big investors' interest in investment offers of free economic zones. Offered tax allowances are an important argument for this investors' group.

The specific mission of the establishing of the KAIP in an industrial district is to generate as many new jobs as possible. Only small or medium-size companies employing 50 - 100 employees can achieve that.

Small and medium enterprises are especially welcome in Kutno region, since they can adapt very fast to the ever-changing market and are also characterized by high innovative ability and flexibility.

The intention of KAIP organizers is not to attract big foreign or Polish enterprises, since that would mean rather low employment. Moreover, big enterprises usually use high-tech technology that does not require a lot of labor but requires an absorptive market which is not a strength of the City of Kutno.

Efforts have been taken to attract German, American and Dutch capital that could, by investing in food industry, contribute to the increase of employment in Kutno region as well as to the implementation of new management techniques and modern technologies.

The combination of routes making it possibly easy to get to Kutno fast from every other Polish city is an especially important benefit for foreign (German) companies. The main Berlin-Moscow route goes across Kutno and it is especially convenient for the companies interested in reaching the Russian market.

SECTORS OF KAIP INVESTMENTS

Agricultural and Food Sector

Areas for investments in agricultural and food processing sector should be taken into account in the Kutno Agro-Industrial Park. This is justified by the following arguments:

- ! Poland is an important agricultural producer in the world. Arable land covers 59.1 percent of the total country area. Potatoes, sugar beets and vegetables and fruit are dominating cultures. The ratios in recent years prove that the potential of Polish agriculture grows indicating high development potential of the agricultural production of Poland.

- ! Moreover, consumption of many products differs from that of the developed countries and despite an excellent sources of raw materials a low level of processing can be observed.
- ! The planned joining of the E.U. will increase the acreage of many crops (including: potatoes and other cultures grown on an industrial scale) and agricultural output, and so the growth of crops.
- ! The low costs of production and the high level of hidden unemployment in the rural areas that could supply cheap workforce are also good opportunities of Polish agriculture.
- ! There is a high raw material potential in Kutno region (as results from the analysis presented in the marketing plan) that ensures an excellent base for starting processing industry.
- ! There is no system of either managing or processing agricultural crops in Kutno region which leads in the agricultural sector to a low economic effectiveness of the region counted by hidden unemployment, inflows from taxes and low producers' profits. Highly profitable activities such as storing, processing and services for agriculture are outside Kutno region.

Most welcome processing of farm products would relate to vegetables with the leading role of potatoes and onions. That is justified by the following:

- ! Potato culture is of a special meaning not only in Kutno region but all over the country. It is also one of important Polish products and its consumption is highest in comparison with European countries (table 5).
- ! Only in Płock Province potato culture covers 11.8 percent of arable land. Potato processing in Płock Province is carried out only by alcohol distilleries which process about 5 percent of the raw material. About 18 percent of total potato crop is purchased and 60 percent of it is processed outside Płock Province. Therefore, taking the lack of processing capacity into account as well as changing tastes, fashions and a growing popularity of fast food the increase of food processing including potato products is justified.
- ! The popularization of semi-finished products for cooking and meals made from potatoes for an easy preparation has a future. The semi-finished products include adequately packed peeled potatoes, potato purée, croquettes, dumplings, French fries and crisps, etc.

- ! Onion culture covering the acreage of 3,120 ha is as widely grown culture in Płock Province as potato. Big volumes of onion production come from Kutno region and at the same time big amounts are wasted. The reason is an improper storing and the lack of an adequate base, i.e., specialist drying and storing houses.
- ! There are two processing companies in Kutno region: Agros in Płowicz and Aronia in Płońsk. They are important companies both on the local and domestic market that specialize, first of all, in fruit processing. Because they are located too close to the KAIP there is no need for establishing similar enterprises. Agros and Aronia use the regional sources of fruit in a sufficient degree. Entering into activities competitive to those companies with a well known brand name, good reputation and market position would not be recommended.
- ! There are many market niches in the agricultural sector. They may be connected with activities supplementing the activities of big processing enterprises, such as Agros. Therefore, it is necessary to cooperate with the above mentioned processing plants in the region to identify possible market niches or to create new opportunities.
- ! Another way is to fill an assortment gap resulting from the liquidation of companies that used to be there. Closing down of a processing plant in Piekary next to Piątek that used to purchase and process vegetables and fruit can be an example.

Newly established companies could bridge the assortment gap producing:

- Fruit products: jams, marmalades, fruit stewed in syrup (compotes), juices
 - Vegetable products: pickled and sour cucumbers, vegetable salads, concentrates (mainly tomato), ketchup, mustard
 - Vegetable and meat canned products
- ! Production of field mushrooms and oyster fungi in regard to which producers inform about difficulties connected with purchasing soil base for start-up of production. It is a typical example of a market niche on the agricultural market.

In Polish conditions agricultural niches are filled in various ways because of the following reasons:

- ! Agriculture in Poland is a difficult branch, since there are many individual and small farms. There are no organizations that would gather private agricultural producers who could perceive both the strength and benefits resulting from cooperation. There are no such traditions in Poland as there are in Western Europe regarding

establishing farm corporations that support individual farms in farm production and in sales of products grown.

- ! Polish farmers are very reluctant to join common organizations. First, they lack sufficient knowledge and skills in starting such ventures as associations of agricultural producers. Second, there is a very strong sense of ownership and issues connected with mentality.
- ! Low farmers' activeness in organizing is also influenced by economic weakness, lack of funds assigned to run business activity, low awareness of Polish farmers and lack of village leaders who could manage such groups.

Spain is an example that it can be different; before Spain joined the EU all organizing initiatives of the farmers were supported by the state and by that the farmers strengthened their position towards the farmers from the EU countries.

In Poland the producers of fruit, vegetables, cereals, pig-breeders start to organize producers' groups. In some cases those groups have squeezed out original farm product suppliers to the biggest shops and supermarkets and now farmers receive profits gained by middlemen so far.

The examples of such groups are a Marketing Co-operative in Trzebuska next to Rzeszów and a Communal Co-operative in Bukowsk that not only sell farm products but also process them.

According to the arguments presented it is hard to expect that agricultural producers will themselves put forward an initiative of establishing an organization that would gather them. There is, then, a necessity of finding a coordinator - developer to carry out an agricultural part. The developer's task will be to develop a clear-cut program for a farm and food undertaking and will help to establish the association of agricultural producers and co-investors in processing.

Kutno is not an important market as far as consumption is concerned and the production of semi-finished products for such big companies like "Hortex", "Gerber", etc. should be rather focused on. The companies that exist on the KAIP grounds can, therefore, become partners supplying raw materials and semi-finished products to big Polish and foreign enterprises that are important on the market. The central position of the Park and rich sources of raw materials are conducive to such assumptions and activities.

Transport and Logistics

Combined Transport

At present combined carriages in Poland make up only 1 percent of all PKP (Polish State Railways) loads. Yet, a growing interest in such a form of transport can indicate its quick development.

So far, combined transport between Poland and Germany has been developed, e.g., permanent connection between Duisburg and Hamburg seaport and many Polish container terminals, between Köln and Pruszków.

In 1996 a shuttle connection was started from Almelo, Holland to G•dki next to Poznań. Two container trains leave for Almelo from a container base operated by Polzug every day. Poltreine, the Dutch partner of PKP dispatches two trains from Holland to Poland, too.

Moreover, Polish, German, Belorussian and Russian Railways have started a container interexpress, Ost-Wind, from Berlin to Moscow.

It is, then, justified to aim at establishing a combined transport terminal at Kutno rail junction.

That element is of a great importance to logistics sector which have good chances to develop due to the location of the Park in Poland and in Europe.

Logistics

More and more enterprises become aware of the fact that under free-market conditions market success depends not only on individual actions but, first of all, on efficient functioning of all links of a logistic chain. The easier given products can be replaced by analogical products from competitive companies, the more important meaning of logistics.

Close cooperation between a producer (who concentrates now more on controlling processes of creating value of finished products and marketing tasks) and a smaller number of suppliers allows focusing all logistic services on a direct consumer and thus a considerable decrease in costs and stocks that engage capital. Direct consumer orientation, if understood properly, means only such production and supply of only such goods a customer really needs. Logistics that assumes low stock levels and a clear customer orientation must be connected with higher outlays to coordination and control.

Examinations carried out lately⁵ have shown a growing tendency of logistics sector integration, especially the meaning of “vertical” cooperation grows. Cooperation between enterprises becomes more and more attractive, because the common use of big logistic networks allows cost lowering, stock decrease and effectiveness increase.

⁵ “Wiadomości gospodarcze” - a monthly of the Polish-German Chamber of Industry and Commerce.

Shortening of delivery times usually leads to the quick growth of demand, new market penetration and the decrease of company costs. Beside efficiency the quality of logistic processes becomes more and more important, because only a consistent customer orientation of all services (own and outsourced) as well as an awareness that product sales only is no longer enough can lead to a competitive advantage.

Most frequent reasons of cooperation of manufacturing enterprises with companies providing logistic services are following:

- Decrease of logistics costs and their better transparency
- Increase of logistics effectiveness
- Quality improvement
- Focus on basic activity
- Higher flexibility
- Better control and monitoring

FM Logistic of Mszczonów, Skierniewice Province is an example of a company providing logistic services. Apart from transport and logistic services provided the company has its own customs depot and agency. Although the company is located in a small town (5,000 -10,000 inhabitants) it is the biggest company of that kind in Poland.

Those factors as well as plans for establishing various enterprises in the KAIP that will cooperate with partners from other regions of Poland and Europe indicate a necessity of establishing a company providing logistic services on the Kutno market.

Packages and Packing

Packages

The next sector that should be started within the KAIP is packaging industry. A package protects a product, defines its quality and adds value. It adequately matches both the product and transport. Establishing a company manufacturing packaging within the KAIP, its closeness to direct customers, e.g., a French fries manufacturer, will simplify transport of products manufactured and will cause the establishing of a complex process line covering storing, processing, packing, transport and export.

Packing

The development of agricultural and processing industry shows a need for investing also in technologies connected with packing vegetables and fruit, as the next investment sector of the KAIP. Packing can bring about an opportunity to establish:

- Vegetable processing plants
- Vegetable cold store plants
- Vegetable drying plants

Drying and storing processes is specific processes in food processing that extend product lives. Starting industrial drying and storing plants will considerably influence the increase of crops of many vegetables and fruit. It will also increase the effectiveness of production and decrease, at the same time, waste of stocks that rot if stored improperly.

Starting of cold store plants will bring about a similar effect. Refrigeration is also of a basic importance in extending food products lives by their refrigeration or freezing and their transport and distribution in a properly lowered temperature. Refrigeration has been used in food processing in such production areas as ice-cream, vegetable fat, candy production, technological processing of meat, poultry and vegetables, etc.

Establishing of relevant drying, storing and cold store plants in the KAIP will result in many benefits for both the investors (who will find an excellent sources of raw materials and contractors) and agricultural producers (who will find customers for their products).

The described sectors of investments in the project of the Kutno Agro-Industrial Park do not make up a finished chapter. It is only the showing of an investment direction focused mainly on the agricultural part. That means the possibility of entering another manufacturing-related activity that can notice a favorable investment base offered by Kutno region.

Considering that investing in the KAIP is a green field type of investing it is difficult to define specific industries. Due to a fact that every investor has different demands and a green field means starting from scratch, the representatives of various industries can be interested in investing in the KAIP.

The defining of “edge” conditions, i.e., excluding investments hazardous to natural environment and existing business environment, is then an important element of the KAIP project.

CHAPTER 8

PROMOTIONAL STRATEGY

KAIP promotion should have an effect on potential ground buyers and should consist in providing them with information sufficiently increasing their knowledge on offered grounds, the KAIP project itself, the city na region of Kutno in order to create KAIP preferences on the investors' market.

Thus, it must be the method of communication of local authorities with the environment which will, in effect, contribute to the increase of investors' interest in the offered grounds.

Since the objectives put forward for the KAIP are long-term, the promotion is one of more important instruments used in such a situation.

PROMOTION

Developing an effective program of KAIP promotional activities requires making of various decisions. To determine promotional objectives is a starting point for that decision making.

The main purposes of KAIP promotion are to:

- Start contacts with potential investors
- Engage in public relations related to the project and get through with the project image to investor's consciousness
- Arouse interest among investors
- Present opportunities and benefits for a potential investor resulting from starting investments in the KAIP
- Present investing incentives for investors
- Succeed in making investors invest in the KAIP

Defining the target audience, namely individuals (institutions) the promotion should cover is closely connected with promotional objectives. The more precise defining of the target audience, the better chance of an effective influence, as in such a situation it is better to avoid dispersing actions on such a target audience which is of no importance for the enterprise as potential or actual purchasers of its products.

Choice of the Target Audience of Promotional Activities

Making of the effective promotional decisions depends, to a large extent, on a proper defining of the promotional target audience, namely individuals or institutions which the promotion is to affect. From this point of view, it is important to define:

- Market segments (groups of purchasers) most important as the purchasers of its products
- Intermediate links in communication with investors
- Opinion leaders, i.e., individuals that influence a decision making process

Market Segments

According to a marketing action conception purchasers cannot be treated as a uniform group but as diverse market segments. Those target market segments are then also the target audience of the project promotional actions.

The criteria of market segmentation that enable the differentiating of purchasers' groups:

- Geographical factors (investors' location)
- Economic factors (investor's size, legal form, industry)
- Economic and social factors (investor's relations with the Polish and local market)

Intermediate Links

Intermediate links in the communication process with a purchaser are places, institutions and individuals investors can contact during a purchase process.

For foreign investors in Poland those are the following institutions:⁶

- Polish Agency for Foreign Investment
- Chambers of Economy gathering investors from a given country
- Ministries
- Embassies
- Business Center Clubs and National Chambers of Economy
- Enterprises in Poland a company cooperates with
- Individuals from Poland known by individuals from decision making centers
- Foreign companies and joint-ventures operating in Poland

⁶ Addresses of institutions in Poland, Attachment No. 1.

The following institutions abroad can assist a foreign investor:⁷

- Chambers of Economy
- Business Associations
- Government Export Support Organizations
- Embassies of countries of investments

Purchase Decision Making Process

Purchases made by institutional purchasers, especially related to investments, are characterized by rational reasons of purchase that the purchasers mainly driven by. Choice criteria used during purchase decision making are usually clearly defined and rational.

It turns out from earlier analyses that a very important decision criterion is the range and quality of services supporting decision making process and regarding an investment, activities prior to purchase and after sale.

The activities include:

- Investor service by an institution leading in comprehensive, reliable and timely information
- Assistance in an adaptation to the environment
- Assistance in the investment process

Next important feature of purchases made by institutional investors is their group nature. A purchase center consists usually of the following elements:

- A user of the purchased grounds, properties
- A decision-maker - a person who makes a decision about the purchase,
- An adviser - a person who molds the opinion of the decision-maker and other members of the purchase center in various formal or informal ways
- A gatekeeper - a person who regulates the inflow of information to the purchase center
- A purchase initiator - a person who identifies the need for purchase

It may happen that during the promotional process the leading institution will deal with various members of the purchase center. Therefore, various arguments must be ready depending on the members representing the purchase center.

Opinion Leaders

⁷ Addresses of institutions abroad, Attachment No. 2.

Opinion leaders are people who can influence other people's opinions and behaviors. They can be middlemen in the process of promotional information flow. Opinion leaders are an additional source of information for the basic audience.

Opinion leaders for foreign investors can be:

- Governmental organizations in Poland (Embassies and Consulates)
- Representatives of Polish politics and economy
- Representatives of Business Center Clubs and National Chambers of Economy
- Representatives of local authorities

Promotional Constancies

It is important during the promotion to use certain constant elements that appear when various forms of promotion and various media are used.

They are promotional constancies. The thing is the promotion should have a certain identity and be different from promotions of other projects.

The most important promotional constancies so understood are:

- A mark (brand)
- A uniform promotional idea
- A promotional slogan (advertising)

There may be other elements, such as, for example, a permanent and characteristic layout of promotional announcements, etc.

The choice of proper promotional channels, namely routes of communication with the market is a very important element. It depends, first of all, on the comprehensiveness and type of the offer, advertising budget, audience type and their expectations.

Next promotional decision is to define forms of promotion that the enterprise regards as adequate in relation to its products on a given market.

Forms of Promotion

The system of promotion covers many elements. The basic are:

- Public Relations
- Advertising
- Sales promotion
- Direct marketing

- Direct sales

Public Relations

Public Relations can be defined as planned and ongoing efforts aimed at creating and maintaining mutual understanding between a given organization and the public. That regards, first of all, building confidence towards the organization as a whole.

When developing actions included in the range of public relations one must know three basic factors, i.e.:

- Enterprises and groups of people to be affected
- Type and way of functioning of centers affecting public opinion
- Principles of choice and use of information techniques

When taking actions in public relations, one must know what is to be achieved with those actions.

Acting in public relations can be effective, if it is based on a common subject of interest. The actions cannot be identical towards various groups. Using public relations one must conduct an analysis of interests of individual environments in order to adequately differentiate an action plan.

The following functions and goals should be achieved within public relations:

- Forming a good image of the city inside
- Forming a good image of the city outside
- Informative character, that means spreading information about the KAIP project
- Organizing and maintaining relations with business environment and residents of Kutno region
- Coordinate business activity with social responsibility (e.g., in regard to environmental protection)
- Supporting the investment offer by positive influence of the city image
- Strengthening the position of the local government and counteracting possible threats to this position
- Maintaining goals and style of acting of the local government and its role in economic and social processes

The tasks of public relations activities are following towards the individual groups:

- ! Towards intermediate links and final purchasers - spreading information on the KAIP and working out positive attitudes towards the offer, forming the good image of the city.
- ! Towards employees of the regional enterprises - identification with city affairs, eliminating the feeling of threat (competition), creating awareness of economic and social benefits.
- ! Towards the City officials - spreading information about KAIP prospects, plans, changes made in the project, necessary financial outlays, training in communication with the public, unity of thoughts and words.
- ! Towards the residents of the city - forming the image of the city, identification of citizens with the city, forming attitudes of satisfaction and pride from the effects achieved by the city, spreading information about the KAIP, informing about goals, prospects and methods of activity of the local government, creating the atmosphere of goal and public participation - "every Kutno citizen a KAIP ambassador."
- ! Towards media representatives - working out positive attitudes towards the city, arousing interest in the KAIP implementation as an economic and social project.

The choice of media:

- Local and national press
- Specialist press
- Radio
- Local TV
- Informal channels - oral information

It turns out from the surveys carried out among the foreign investors that almost half of them, i.e., 42.9 percent obtain information about the local environment from informal sources, namely from individuals or companies that are their Polish partners and 42.5 percent obtains information through private contacts with the Polish. Almost 22 percent of investors get information from other foreign investors already operating in Poland.

It must be noted that the local authorities do not notice informal sources of information and private contacts with other foreign investors in Poland.

The use of oral information in the KAIP promotion can bring about better effects than announcements in newspapers and periodicals. A direct contact with purchasers creates a very favorable atmosphere for decision making. Close relations increase, then, reliability and persuasion abilities by mutual recommendations regarding that type of investments.

Oral recommendations are much quicker and more convincing than advertisements in media. Therefore, local authorities should not disregard them but rather use opportunities they create for the promotion of the KAIP project more often.

Important aspects of Public Relations in the implementation of the KAIP:

- Very frequent presentations of the city of Kutno - Kutno is the city people say and hear about a lot
- Preparing a schedule of buying time and space in various media - planning effect
- The use of all positive and interesting events in order to form the image of the city
- Publicizing successes
- Projecting trouble points and those that require pacifying
- Monitoring of public atmosphere and opinions
- Cementing the citizens, local government and press representatives around a joint publicizing of the KAIP project

Advertising

Advertising is one of marketing instruments included in the promotion system. The content and scope of advertising depend on the type and scope of other promotional means.

Advertising is a very effective instrument of local government communicating with a target investor.

The purpose of KAIP advertising is to:

- Provide information about the project
- Give reasons why investing is worthwhile
- evoke a desire to invest
- Convince to investing

Acting in accordance with the purposes of advertising and following certain rules, advertising should reach the target audience and evoke desirable effects. Therefore, a proper choice of the forms of the KAIP advertising is very important.

Because of the fact that advertising is the form of mass impersonal presentation and support of the idea (project), the most desirable function it should play in the KAIP promotion should be an informative, educational and economic function.

Informative function provides potential investors with information about project, its purpose, main conception and features that differentiate the project from competitive ones on the market.

Educational and economic functions serve to provide information about methods of satisfying investors' needs and benefits related to that.

The KAIP promotion should be performed by use of the following advertising forms and means:

- Mailing (advertising letters)
- Publishing (brochures, catalogues)
- Press (articles - sponsored or reports, inserts in the magazines)
- Radio (broadcasts, interviews, informative programs)
- TV (informative programs, interviews)
- Advertisements (billboards)
- Exhibitions

The best form of advertising in case of the KAIP will be press advertising. The following problems should be taken into consideration when using this type of promotion:

- ! **The choice of press.** The choice of press should be in compliance with the target market. The effectiveness of an advertisement message for the KAIP will depend, to high extent, on the proper selection of press.

We suggest to choose newspapers most often subscribed to by domestic and foreign companies and institutions: titles of daily, weekly, semimonthly and monthly press.

- ! **Market opinion of the press.** Another factor that influences the choice of the press can be the set market opinion of the press. There are newspapers published in Poland that are perceived as prestigious by domestic readers. Those include, e.g., "Polityka", "Życie Gospodarcze", "Gazeta Bankowa", "Rzeczpospolita", "Gazeta Wyborcza", "Businessman". In case of foreign publications those preferred by managers include: "Commercial News", "Warsaw Business Journal".

Advertisements can appear both in newspapers and periodicals.

The advantage of newspapers is their flexibility and topicality. The cost of an advertisement reach per one person is fairly low, yet the life of newspapers is very short.

Periodicals are a much more favorable form of advertising. They are nationwide and thus the cost of an advertisement per one reader is fairly low. By placing advertisements in specialist periodicals you can reach selected audience with a relatively low degree of unused reach.

Unlike other media periodicals can be read for a longer time. This is especially important in case of placing a long and complicated information (which the advertisement of the KAIP is going to be) which requires better attention and concentration from a reader.

Advertising the KAIP project in the above mentioned press would make the promotion more reliable and reach the target audience it is directed at.

When organizing promotional activities for the KAIP the circulation of individual advertising means is very important, since whether the information reaches more or fewer target purchasers depends on this circulation.

Individual means of advertising can differ in effects in case of a given kind of advertisement.

On the basis of surveys conducted by the Ośrodek Badań Prasoznawczych Uniwersytetu Jagiellońskiego (Jagiellonian University Press Survey Center) the range of male readers of national newspapers and periodicals is as follows:

- “Gazeta Wyborcza” - 28 percent
- “Nie” - 12 percent
- “Wprost” - 9 percent
- “Polityka” - 7 percent
- “Rzeczpospolita” - 6 percent

Using this data it is possible to identify where to place the KAIP advertisement so it reaches the largest audience.

The KAIP advertisement should be also placed in foreign press issued in Poland in order to reach foreign purchaser. Since, as it turns out from a survey conducted by the INDICATOR, foreign investors get information about an investment environment in the same degree from Polish and foreign press.

It has been noticed in that survey that local authorities do not consider foreign press as the source of information for western investors. Therefore, the authorities of Kutno should

remember about placing advertisements in press in German and English languages in order to reach directly and select foreign investors.

Next very important element of advertising is a relevant position of the advertisement in the press. It should be clearly visible and attractive to read. A proper choice of place can enhance the effectiveness of reaching a target purchaser.

Advertisements on the right hand side of a paper and in the central part of a paper are most visible.

A good advertisement should include the following elements:

- ! Headline - informing about the offer and promising a certain benefit to a potential purchaser; if the headline is not attractive enough, the chances of noticing the advertisement are low.
- ! Content expressed in an readily understandable and simple language
- ! Picture - increases an attractiveness and interest in the advertisement
- ! Advertisement appeal - description part of the advertisement should end with something that will sound like a war cry and encouraging enough to act

Principles of effective advertising:

- An advertisement will not work, if it does not attract attention
- Every advertisement must clearly express a defined goal of the project
- Headlines in press advertisements are read five times more often than text, therefore the headline should offer benefits to a potential purchaser

Advertising Publications

In case of the KAIP promotion the preparation of an advertising brochure providing detailed information on the idea of the KAIP project, its purpose and benefits resulting from investing in the Park is a very important element.

When preparing the brochure one must remember about its cost effectiveness of its reaching a target purchaser. It must be attractive for potential audience and evoke a need for the engagement in the project.

Advertising Announcements

Billboard is an effective form of advertising.

Its main advantage is reaching a relatively large audience. Since its usually found at the sides of roads, it should include a short information on a subject advertised.

This type of advertising allows:

- A vast range of local influence
- A relatively low cost of the advertisement
- Quick communication (e.g., informing purchasers about the starting of a project)
- High frequency (as a reminder)

Big size, colors, 3-D billboards better attract attention of potential purchasers.

The best place for billboards advertising the KAIP is A-2 road (Berlin-Moscow). At the moment (until the superhighways are build) it is the international West-East road. Because of heavy traffic there it guarantees that the advertisement will be noticed by both Polish and foreign road users.

Advertisement effectiveness will be enhanced by billboards placed in regular intervals along the long section in Kutno area.

Another good place is KroŹniewice commune close to Kutno, where A-2 road and A-1 road intersect. Billboards advertising Kutno and the KAIP should also be placed there.

Moreover, billboards will be effective if placed in most frequented places. A railway station with the average number of 40,000 passengers served is such a place in Kutno.

Radio Promotion

Radio can also be an effective channel of communication with the target market. Unfortunately, radio is suitable for promoting only certain groups of goods and services. Its is recommended to advertise the sales of consumer products sold on local markets.

Radio as an advertising channel is not recommended for the KAIP. Radio can and should be a relevant Public Relations channel.

TV Promotion

TV promotion is one of the most expensive forms of advertising. Costs of both production of a TV commercial and its emission are high. Thus, the use of TV to advertising the KAIP is not justified, since potential purchasers are not a mass audience. Thanks to its mass nature of reaching audience TV is a perfect medium for Public Relations. Because of a social aspect of the KAIP TV can be used, without additional costs, in order to build the image of the city and information of the KAIP through participation in TV programs, interviews, events organized in Kutno.

Considering that both radio and TV can be effective forms of public relations of Kutno and information about the KAIP, proper radio stations and TV programs should be chosen.

Their reach is as follows:

! Radio stations

- Program I of Polish Radio - 69,2 percent
- Program II of PR - 53,8 percent
- Program II of PR 41,9 percent
- Local station of PR - 41,1 percent
- Program IV of PR - 31,8 percent
- Radio RMF/FM - 6,9 percent

! TV stations

- TVP (Polish TV) program I - 97,2 percent
- TVP program 2 - 94,2 percent
- TVP regional station - 52,2 percent
- Foreign and direct TV - 6,4 percent

Personal Sales

Personal sales is an instrument of a market communication system and supporting sales related to direct contacts of a seller with a buyer.

Personal sales play the most important role on the investors' market. The main purposes of direct sales of the KAIP are to:

- Seek investors (identification of potential investors)
- Reach investors directly
- Convince investors to invest

Entering in direct contacts with intermediate links and potential purchasers should be treated as a priority:

- Organization of meetings, conferences and workshops for investors in Kutno
- Visits at home and abroad
- Direct contacts with intermediate links
- Participation in meetings and conferences organized by other cities and towns
- Organizing direct contacts between potential customers and enterprises functioning in Kutno

Sales Promotion

Depending on purposes of activities and investing conditions the promotion of the KAIP grounds can fulfill various specific tasks complying with a general purpose of activities. Sales promotion of the KAIP means all tangible and intangible means aimed at quick and short term increase of investor interest by adding exceptional benefits for investors to the offer that will attract interest or an incentive for a target purchaser (investor).

As it turns out from the surveys conducted by INDICATOR foreign investors feel the lack of allowances and investment exemptions extended by local authorities (only 3.3 percent among all the respondents). Other opinions point at this topic by local authorities, about 20 percent of the representatives of the authorities think that allowances and exemptions are granted.

The discrepancy of those opinions is the result of foreign investors not being informed about the possibilities of using investment incentives extended by the local authorities or of the expectations of foreign investors being higher than the possibilities of the local authorities. It should be concluded that the local authorities of Kutno should pay special attention to developing a program of granting investment allowances and incentives, since market competition leads to a situation where certain expectations of the investors are a standard obvious to them.

An investment incentive is effective if it:

- Meets expectations and experiences of investors
- Is measurable and clearly defined
- Appears consistently in all forms of promotion
- Does not compete with other promises but is compatible with them

Reliable information about authority and limitations of the local authorities resulting from existing legal regulations and authority level is also very important.

Direct Marketing

Direct marketing is the form of promotion that consists in advertising aimed at the direct reaching of a target purchaser, providing him with leaflets and promotional materials.

Communication by use of direct mailings is more and more used, since it allows a high selectiveness on the target market. That form is focused on specific individuals and is flexible. It consists in direct mailing of leaflets or brochures to potential investors.

Promoting the KAIP by use of direct marketing has its limitations. First of all, despite a decision about making a target list of purchasers, the rate of answers returned to the offer is less than 5 percent. Therefore, direct mailing must cover a long list of a potential market. Target lists can be bought in specialized companies.

Mailing can be carried out by traditional mail or by email (INTERNET).

Deciding Budget for the KAIP Promotion

A factor which influences the use of specific means of advertising is the cost related to starting them. The cost of media should be considered from the point of view of financial possibilities of the KAIP organizer in connection with the range of advertising and its frequency.

A standard measure used in regard to all media is the cost of an advertisement as the cost of reaching every thousand of people. Calculation of this cost allows the comparison of costs of individual media. That comparison can be carried out on the basis of data related to various types of media in Poland which are following:

- ! Public TV - US\$ 1.40
- ! Local radio - US\$ 0.38
- ! Newspapers
 - Gazeta Wyborcza - US\$ 1.80 (with the target audience of 2,889,000)
 - Rzeczpospolita - US\$ 9.60 (9 580 000)
 - ycie Warszawy - US\$ 9.40 (290 000)
 - Dziennik Zachodni - US\$ 1.80 (1 155 000)
 - Polityka - US\$ 8.50 (580 000)

! Periodicals

- Wprost - US\$ 5.70 (580 000)
- Businessman Magazine - US\$ 7.10 (290 000)
- Sukces - US\$ 3.00 (870 000)

This information should be a basis for comparing the effectiveness of media and an important criterion of choosing them as carriers of the KAIP advertising information.

SUMMARY

The promotional program should meet the following criteria:

- Intensity
- Consequences
- Have a budget secured for implementation
- Professionalism
- Planning
- Assumption of effectiveness prepared
- Measurements of effectiveness

The main purposes of the KAIP promotion are:

- To establish contacts with potential investors
- To create the image of the whole project
- To present the opportunities for a potential purchaser resulting from investing in the KAIP
- To present the investment incentives
- To attract interest among investors
- to lead to investments in the KAIP

A critical element of the KAIP promotion is reaching a potential investor. Nobody should expect that investors will apply by themselves.

The local authorities should, when conducting promotional activities, develop fixed elements of the KAIP promotion, i.e., promotional constancies including:

- A mark
- A uniform promotional idea
- A promotional slogan



The following promotional elements should be used in the KAIP promotion:

- Public Relations
- Advertising
- Sales promotion
- Direct marketing
- Direct sales

Press advertising, including national and foreign press will be the most effective form of the KAIP promotion. It is justified by the following arguments:

! National press

- Large circulation and reach
- Quick service
- Low cost of placing an advertisement
- Identified readers
- Mass audience

! Foreign press

- Possibility to reach foreign investors
- International circulation
- Identified readers

Before an advertisement is placed, a proper choice of press should be made taking into account its circulation and market opinion.

Sales promotion is also a proper form of the KAIP promotion and should include specific investment incentives for a potential investor arousing a desire in the investor of engaging capital in the KAIP.

ATTACHMENTS

ATTACHMENT NO. 1

EMBASSIES

Embassy of the United States of America
Warszawa Al. Ujazdowskie 29/31
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Embassy of Austria
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tel: 41 00 81
fax 41 00 85

Embassy of Belgium
Warszawa ul. Senatorska 34
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fax 635 57 11

Embassy of United Kingdom
Warszawa Al. Róó 1
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fax 621 71 61

Embassy of the Republic of France
Warszawa ul. Piłkna 1
tel: 628 84 01
fax 625 20 31

Embassy of Kingdom of Holland
Warszawa ul. Chocimska 6
tel: 49 23 51
fax 48 83 45

Embassy of Germany
Warszawa ul. Dłbrowiecka 30
tel: 617 30 11
fax 617 35 82

Embassy of the Federation of Russia
Warszawa ul. Belwederska 49
tel: 621 59 54
fax 621 37 94

Embassy of Kingdom of Sweden
Warszawa ul. Bagatela 3
tel: 49 33 51
fax 49 52 43

Embassy of the Republic of Italy
Warszawa pl. Jarosława Dłbrowskiego 6
tel: 26 34 71
fax 27 85 07



MINISTRIES

Ministry of Industry and Commerce
Warszawa ul. Wspólna 2/4
tel: 661 81 11

Ministry of Foreign Affairs
Warszawa Al. Jana Christiana Szucha
23
tel: 623 90 00

Ministry of Foreign Economic Relations
Warszawa pl. Trzech Krzyży 5
tel: 693 50 00

Agency for Industry Development
Warszawa ul. Wspólna 4
tel: 661 81 11

FOUNDATIONS AND SUPPORTING INSTITUTIONS

Towarzystwo Wspierania Inicjatyw
Gospodarczych
(Society for Support of Economic
Initiatives)
Warszawa ul. Krucza 36
tel: (48-22) 27-5315; 26-7632
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Fundacja Wspierania Inicjatyw
Gospodarczych
(Foundation for Support of Economic
Initiatives)
Warszawa Al. Stanów Zjednoczonych
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Krajowa Izba Gospodarcza
(Polish Chamber of Economy)
Warszawa ul. Tróbecka 4
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Izba Przemysłowo - Handlowa
Inwestorów Zagranicznych
(Foreign Investors' Chamber of Industry
and Commerce)
Warszawa ul. Krakowskie
Przedmieście 47/51
tel: 26 32 01

Ogólnopolska Izba Przemysłowo -
Handlowa Inwestorów Prywatnych
(Polish Chamber of Industry and
Commerce of Private Investors)
Warszawa ul. Widok 12
tel: 27 54 74

"Locum" Biuro Handlu Zagranicznego
(Foreign Trade Office)
Warszawa Al. Jana Pawła II 13

tel: 20 52 52

Instytut Koniunktur i Cen Handlu
Zagranicznego
(Institute of Economic Situation and
Prices in Foreign Trade)
Warszawa ul. Dwiłtokrzyska 12
tel: 26 89 08

Centrum Doskonalenia Kadr Handlu
Zagranicznego
(Training Center for Foreign Trade
Staff)
Warszawa ul. Stawki 2
tel: 635 25 21

Centrum Informatyki Handlu
Zagranicznego
(Foreign Trade Computerized
Information Systems Center)
Warszawa ul. Stępińska 9
tel: 41 00 11

"Polmicon: Biuro Finansowo -
Inwestycyjne
(Financial and Investment Office)
Warszawa Al. Jerozolimskie 11/19
tel: 628 74 52 w. 269

Polska Grupa Inwestycyjna S.A.
(Polish Investment Group, J-S Comp.)
Warszawa ul. Marszałkowska 82
tel: 623 66 33

"Investment Development Center" Ltd
Warszawa ul. Szturmowa 4
tel: 43 91 66



Przedsiębiorstwo Handlu
Zagranicznego - *Biuro Usług - kraje
pozaeuropejskie*
(Foreign Trade Enterprise - *Service
Office - Non-European countries*)
Warszawa ul. Tytusa Chałubińskiego 8
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fax 30 09 15

Agencja Informacji Przemysłowo -
Handlowej
(Industrial and Commercial Information
Agency)
Warszawa ul. Widok 24
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Business Center Club
Plac Żelaznej Bramy 2
00-136 Warszawa
tel: (48-2) 625-3037
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UNIDO - Industrial and Investment
Cooperation Office
(United Nations Industrial Development
Organization)
Aleje Niepodległości 186
00-608 Warszawa
tel: (48-22) 25-9467; 25-9186
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Int'l tel/fax: (48) 3912-1772

Francuska Izba Przemysłowo-Handlowa
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(French Chamber of Industry and
Commerce in Poland)
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tel: 622 30 05
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Izba Handlowa Włosko-Polska
(Italian-Polish Chamber of Commerce)
Warszawa ul. Nowogrodzka 21
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I.C.E. Włoski Instytut Handlu
Zagranicznego
(I.C.E. Italian Foreign Trade Institute)
Warszawa Al. Jana Pawła II 34
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AIP Australian Investments in Poland -
Biuro Handlu Zagranicznego
(Foreign Trade Office)
Warszawa ul. Racławicka 128
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Państwowa Agencja Inwestycji
Zagranicznych
(Government Agency for Foreign
Investment)
Warszawa Al. Róż 2
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Centrum Informacji Rynkowej Handlu
Zagranicznego
(Foreign Trade Market Information
Center)
Warszawa ul. Krucza 38/42
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fax 629 12 22

Agencja Rynku Rolnego
(Agricultural Market Agency)
Warszawa ul. Wspólna 30
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Polska Izba Gospodarcza Producentów
i Eksporterów Rolnych
(Polish Economic Chamber of Food
Producers and Exporters)
Warszawa ul. Dwi"tokrzyska 20
tel: 26 02 15

Fundacja Polska Eksportuje
(Foundation: Poland Exports)
Warszawa ul. Królewska 27
tel: (48-22) 27-6810
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BANKS

Narodowy Bank Polski (National Bank of Poland)
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Bank Handlowy
Warszawa ul. Chaubizskiego 8
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Bank Inicjatyw Gospodarczych
Warszawa Al. Jerozolimskie 44
tel: 27 47 97

Bank Przemysowo - Handlowy
Krakw ul. Solskiego 43
tel: 22 33 33

Bank Rozwoju Eksportu
Warszawa Al. Jerozolimskie 65/69
tel: 30 63 06

Bank Rozwoju Rolnictwa
Pozna ul. Kociuszki 80A
tel: 52 12 21

Bank Zachodni
Wrocaw ul. Ofiar Owicimskich 41/43
tel: 44 66 21

Polski Bank Inwestycyjny S.A.
Warszawa pl. Defilad 1
tel: 693 70 41

Bank Rozwoju Eksportu
Warszawa pl. Bankowy 2
tel: 635 54 26
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Polski Bank Rozwoju S.A.
Warszawa ul. urawia 47/49
tel: 630 04 02

Dresdner Bank
Warszawa Al. Jerozolimskie 65/79
tel: 30 68 37

Westdeutsche Landesbank (Europa) AG
Warszawa ul. Grzybowska 80/82
tel: 661 54 40

Landesbank Hessen - Thringen
Warszawa ul. Nowogrodzka 50
tel: 625 19 76

Swedbank *Agency in Poland*
Warszawa ul. Wilcza 46
tel: 625 51 48

“Societe Generale Bureau de
Representation” *Agency in Poland*
Warszawa ul. Stawki 2
tel: 635 74 12

“Societe Generale Succursale de
Varsovie”
Warszawa ul. Nowogrodzka 50
tel: 628 81 71

Banque Nationale de Paris - *Agency in
Poland*
Warszawa Al. Jerozolimskie 65/79
tel: 630 69 01

Ing Bank Warsaw the Branch
Internationale Nederlanden Bank N.V.
Warszawa ul. Emilii Plater 28
tel: 625 56 91



POLISH-AMERICAN INSTITUTIONS IN POLAND

U.S. Foreign Commercial Services (USFCS)

Al. Jerozolimskie 56c
00-303 Warszawa
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Agriculture Cooperative Development International

ul. Jasna 24/26
Warszawa
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fax: (48-22) 26-7676

American Business Center

Pl. Powstańców Warszawy 1
00-950 Warszawa
Tel: (48-22) 27-7365
fax: (48-22) 26-1196

American Building Products Export Council

ul. Bartycka 26
00-716 Warszawa
Tel: (48-22) 40-1719
fax: (48-22) 32-6442

American Chamber of Commerce in Poland

ul. Dwi"tokrzyska 36
00-116 Warszawa
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209-962 ext. 222, 223
fax: (48-2) 622-5525

Polsko - Amerykańska Fundacja Doradztwa dla małych przedsi"biorstw (Polish-American Consulting Fund for Small Enterprises)

Warszawa ul. Emilii Plater 47
tel: 24 26 06

Polish-American Enterprise Foundation

ul. Piotrkowska 86
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Polsko-Amerykański Fundusz

Przedsi"biorczoŃci.
(Polish-American Business Fund)
Nowy Świat 6/12
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Tel: (48-2) 625-1921, 625-2017
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Central Europe Food Ind. Consortium

ul. Czackiego 3/5
00-043 Warszawa
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**GERMAN INSTITUTIONS IN POLAND**

Polsko - Niemiecka Izba Przemysłowo -
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Commerce)
Warszawa ul. Miodowa 14
tel: 635 33 53
fax 635 81 06

Urząd Komitetu Integracji Europejskiej
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Committee)
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Biuro Koordynacji Pomocy *w zakresie*
Doradztwa Gospodarczego
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Polsko - Niemiecka Towarzystwo
Wspierania Gospodarki S.A.
(Polish-German Society for Support of
Economy, J-S Comp.)
Gorzów Wlkp. ul. Kobyłgorska 68
tel: 20 45 13
fax 20 47 44

Fundacja Współpracy Polsko -
Niemieckiej
(Polish-German Cooperation
Foundation)
Warszawa ul. Krucza 24/26
tel: 25 34 18

PIHZ Polsko - Niemieckie Centrum
Informacyjno - Handlowe
(Polish Chamber of Foreign Trade -
Polish-German Information-Trade
Center)
Warszawa ul. Podwale 17
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ATTACHMENT NO. 2

INSTITUTIONS IN THE U.S.

Polish - U.S. Economic Council
Chamber of Commerce of the United
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Washington, D.C. 20062-2000
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fax: (202) 463-3114

U.S. Poland Chamber of Commerce
321 N. Clark Street, Suite 550
Chicago, IL 60610;
tel. (312) 467-0614
fax: (312) 467-0615

Polish Businessmen Club
City Network International
2921 N. Cicero Ave.,
Chicago, IL 60641
tel. (312) 736-0333
fax: (312) 736-3732

Embassy of the Republic of Poland
Office of the Economic
Counselor
1503 21st Street, N.W.
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Embassy of the Republic of Poland
Office of the Commercial Counselor
100 Park Ave.
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Consulate General of the Republic of
Poland Commercial Section
333 East Ontario Street Suite 3906B
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